

Institutional Investment in Social and Affordable Housing in Ireland

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I confirm that the word count of this thesis is less than 100,000 words, excluding the title page, contents acknowledgements, abstract, abbreviations, diagrams, illustrations, tables, appendices, and references.

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ABSTRACT

The housing market in several countries is facing major challenges concerning the supply of new housing and in particular the provision in the affordable and social sector. This has been accentuated by financial constraints on public sector spending meaning that new ways of funding social/affordable housing are required working in conjunction with the private sector and using private finance. Ireland is faced with similar problems where traditionally government capital has been used through local authorities or Approved Housing Bodies to provide new housing in this sector.

This thesis puts forward a model of institutional equity funding for social/affordable housing. The hypothesis is that a steady, cash producing investment in housing with a high level of security via government underpinning should be amenable to yield-seeking institutional investors. Within Ireland, dense concentrations of social housing have proven to be unsuccessful, accordingly the provision of a mixed tenure model, incorporating a tenant base with greater economic capacity facilitates the innovative delivery of sustainable communities in the rental housing sector.

Most of the academic literature on Irish social housing has originated from the social sciences and from a historical perspective. Hence, there is a lack of research on how housing is funded including the absence of viable financial models of delivery. This thesis, in addressing this issue, combines the analysis of social housing funding mechanisms at an international level with a consideration of the institutional residential investment environment. The research is set in the context of Irish social housing as a system in a historical institutional perspective highlighting strong path dependencies.

The proposed fund articulated in this thesis advocates using public sector support to stimulate institutional investment in mixed-tenure housing through an equity capital vehicle with REIT –type characteristics giving property market returns to institutional investors.

ABBREVIATIONS

AA	Availability Agreement
AHB	Approved Housing Body
AIFM	Alternative Investment Fund Manager
CALF	Capital Advance Leasing Facility
CAPM	Capital Asset Pricing Model
CAS	Capital Assistance Scheme
CDC	Caisse des Dépôts et Consignations
CFV	Central Fonds Volkshuisvesting
CGLLS	Caisse de Garantie du Logement Locatif
CGT	Capital Gains Tax
CLSS	Capital Loan and Subsidy Scheme
CPI	Consumer Price Index
CSHA	Commonwealth-State Housing Agreement
DADC	Dublin Artisan's Dwelling Company
DADF	Dublin Artisan Dwelling Fund
DBFM	Design, Build, Finance and Maintain
DCLG	Department of Communities and Local Government
DEASP	Department of Employment Affairs and Social Protection
DECLG	Department of Environment, Community, and Local Government (2011–2016)
DHPCLG	Department of Housing, Planning, Community and Local Government (2016–)
DPER	Department of Public Expenditure and Reform
ECB	European Central Bank
EIB	European Investment Bank
EMH	Efficient Market Hypothesis

ESRI	Economic and Social Research Institute
FDI	Foreign Direct Investment
FRI	Full Repairing and Insuring
GFC	Global Financial Crisis
HAP	Housing Assistance Payment
HFA	Housing Finance Agency
HLM	Habitation à Loyer Modéré
ICAV	Irish Collective Asset Vehicle
IFSC	International Financial Services Centre
ILGB	Irish Local Government Board
IMF	International Monetary Fund
IRB	Irish Republican Brotherhood
ISIF	Ireland Strategic Investment Fund
LA	Local Authority
MPT	Modern Portfolio Theory
NAMA	National Asset Management Agency
NARPS	National Asset Residential Property Services
NATO	National Association of Tenant Organisations
NBA	National Building Agency
NDFA	National Development Finance Agency
NESC	National Economic and Social Council
NOAC	National Oversight and Audit Commission
NPF	National Planning Framework
NRAS	National Rental Affordability Scheme
OECD	Organisation for Economic Co-operation and Development
PAA	Payment and Availability (Agreement)
PLAI	Prêt Locatif Aidé d'Intégration

PLI	Prêt Locatif Intermédiaire
PLS	Prêt Locatif Social
PLUS	Prêt Locatif à Usage Social
PPP	Public-Private Partnership
PRTB	Private Residential Tenancies Board, later Residential Tenancies Board (from 2016)
QIAIF	Qualifying Investor Alternative Investment Fund
RAS	Rental Accommodation Scheme
REIT	Real Estate Investment Trust
SGEI	Service of General Economic Interest
SHCEP	Social Housing Current Expenditure Programme
SHLI	Social Housing Leasing Initiative
SNI	Société Nationale Immobilière
WFG	Wohnraumförderungsgesetz
WSW	Waarborgsfonds Sociale Woningbouw

CHAPTER 1: INTRODUCTION

1.1 Contextual Background

Housing is a deeply complex but fundamental human construct. It has an obvious physical manifestation in the form of structures where people live, but it also has profound, social, economic, anthropological, and political significance, together with strong emotional and psychological resonances that permeate all human societies. From nomadism to advanced western capitalist culture, housing plays an important role in the organisation of human societies. Indeed, the roots of the most recent world economic crisis lay in the malign effect of failed housing speculation, and its derivatives, on the financial system and ultimately the world economy. At its most basic level, housing provides us with a fundamental human need – shelter. Alongside food and water, shelter is one of our most basic requirements. Maslow's hierarchy of needs (Figure 1.1) is often portrayed as a pyramid with physiological needs at the base, indicating that they are the requirements for basic existence. Housing is also fundamental to the second rung on that pyramid – safety and security. In most societies, housing also plays a key role in the social needs of an individual, as the locus of family life, the link to the “community”, and in settled societies to a sense of place and belonging. In most societies, the choice of dwelling is an important indicator of social standing, rank, wealth, and status. Fundamentally, housing as a construct is deeply important to our sense of ourselves and how we relate to each other.

Figure. 1.1 Maslow's Hierarchy of Needs



The corollary of the importance of housing to the individual is that housing plays a very significant part in how economies and societies are organised. In western and capitalist economies, the price of housing is a key driver of wages and other costs in the economy. A full analysis of the dynamics of housing markets is outside the scope of the present discussion, but housing prices are a function of a complex nexus of demand/supply issues, credit availability, wages, underlying economic conditions and consumer sentiment. Purchasing a home is likely to be the biggest investment in the lives of most households. Homeownership therefore absorbs a huge portion of incomes that is thereby lost to other asset classes as an investment option.

Housing also acts as a social segregator in society. While the gated enclaves that characterise homes of the wealthy in some cities are some of the most extreme manifestations of this, it is generally true that social classes are separated by location and the type of housing that they live in. From the favelas and barrios of Latin America to the large public housing estates of western Europe, rich and poor are generally spatially divided. Cities are therefore typically separated into areas according to the wealth or social class of their citizens. There is extensive literature investigating the links between housing and outcomes in health, education and other key socio-economic indicators, and generally those outcomes are worse for those who live in poorer housing conditions. Aside even from any humanitarian or egalitarian impulses, such outcomes are likely to prove costly to society in terms of additional health costs, and a less-skilled workforce to drive the economy. Without an adequate supply of affordable housing, cities and city-regions are vulnerable to sharp upward wage pressures, and externalities such as congestion and sprawl that reduce their overall efficiencies. All advanced western democracies therefore provide some housing support to households who are unable to afford to house themselves in the market. Hence the need for provision of social housing in meeting the needs of disadvantaged/lower income households. However, the definition of social housing is problematic because of widely differing systems and methods of provision used in different contexts. In Ireland, the legal term used is “social housing support” which refers to a range of housing options from state-owned properties to supported private tenancies. Cahill (2014) surveys some definitions of social housing, noting that ownership of the property by a “non-profit” type landlord – local authority or voluntary housing body for example, does not always adequately describe social housing, as subsidised housing might also comprehend “social housing” irrespective of the landlord.

Arguably Haffner et al (2009, 2010) interpret social housing on the basis of needs allocation, a definition that is utilised in this thesis to distinguish between social and market housing. This definition has been chosen as it is broad enough to encompass a range of descriptions that is not confined to the nature of the provider, and permits international comparison. Social housing is defined as housing provided for people on low incomes or with particular needs by government agencies or non-profit organisations. In many countries, housing is not directly provided; rather market-based accommodation is supported by a subsidy of one kind or another. Arguably the Irish situation is comparable as income limits for social housing encompasses households at median, or close to median income in many areas. However, the reality is that the majority of social housing applicants are entirely reliant on social welfare payments, notwithstanding a notable increase in applicants with some form of employment income in recent years (Housing Agency, 2016a).

Developing social housing at scale has led to widespread social problems throughout Europe. This has resulted from poor planning and location, bad construction and low levels of investment in maintenance and other necessary interventions. Intense concentrations of households with low levels of economic capacity, and the consequent deprivation and poverty have led to entrenched patterns of exclusion, and marginalisation. Of course, this has led to poor perceptual problems for social housing, and make it a counter-intuitive real estate investment proposition. Acknowledging the mistakes of the past has led to a strong sustainable communities' mandate in developing new social housing. This means that policy insists on higher levels of integration between social housing and other tenure types. It also reduces the volume of low-income housing that can be produced at any one location. Of course, this policy mitigates against the volume production of housing that is required (a) to meet the demand, and (b) to satisfy the needs of institutional investors for large-scale investment. Also, if the mistakes of the past are not to be repeated, there needs to be some additional economic capacity in the communities to render them sustainable.

The industrialisation of the nineteenth century led to rapid urbanisation and the growth of towns and cities. As the industrial revolution progressed, the living conditions of many of those who came to work in the new factories was often extremely poor, with overcrowding, lack of sanitation and adequate light and ventilation. Concern about these conditions led to the public or philanthropic provision of housing for the working classes, and the origin of modern social or public housing as it is understood in Europe and North America comes about from this time

(Balchin and Rhoden, 1998). There were a number of drivers of this movement. Philanthropists and social reformers were appalled by the conditions they witnessed in the slums of the newly industrialised cities, and were motivated by religious and humanitarian concerns. However, concerns that overcrowding and poor sanitation were causing public health problems, and the concern that this could lead to social and political unrest led to the beginning of state-subsidised public housing from the middle of the nineteenth century (Norris, 2003).

In Ireland, the development of this system for housing of the very poor was rooted in land reform movements and agrarian unrest rather than labour movement or philanthropic concerns as characterised other European countries. The evolution of the system is well covered in the literature (Norris, 2016; Kenna, 2011; Fraser, 1996). Supported housing in urban areas arose later, and as Norris (2003) describes in early attempts to provide a legislative underpinning to the provision of lower-income housing local authorities were not the principal providers, and that philanthropic or semi-philanthropic bodies provided the bulk of such housing with the aid of low-cost loans and grant aid from Dublin Corporation. The Dublin Artisans Dwelling Company (which formed the inspiration for this research) was a commercial concern, providing housing to the better paid of the working classes, and providing a 4-5% return to its investors with loans provided from local government.

Both Norris and Kenna agree that the Housing of the Working Classes Act in 1890 represented a step change in the provision of housing in that it marked the beginning of local authority construction of low-income housing, and that the Housing of the Working Classes (Ireland) Act 1908 marked the point at which the principal providers of social housing became public bodies rather than non-statutory actors. This point also marks a divergence between Great Britain and Ireland and other northern European countries where non-governmental entities continued to provide the bulk of social housing. A full discussion of the historical development of Irish social housing is at Chapter 4.

The Irish social housing system is marked by a number of characteristics:

- The strong role of local government (Norris, 2003; Kenna, 2011 at p.24);
- Particularly in the early years, the emphasis on rural housing for low-income workers (Norris (2003), at p.167; Kenna, 2011, at p.25; Fahey, 1998);
- Differential rent (Norris 2003, at p.175);
- Tenant purchase options (Norris, 2003, at p.173; Hayden, 2014);

- Capital fluctuations (Norris, 2003, at 171);
- Residualisation.

Each of these individual characteristics has had particular consequences for the evolution of social housing in Ireland. The fact that local government was the principal delivery mechanism meant that the strong co-operative, voluntary, or non-profit housing associations that characterise social housing systems elsewhere in Europe did not develop. The emphasis on rural housing meant that significant developments in urban areas were later to arrive on the Irish housing landscape, a fact that is likely to have given rise to the rapid residualisation of social housing. The differential rents regime, which links the rent payable to the income of the household meant that the connection between the cost of providing housing and the income received to sustain it became more tenuous, and the moneys received were either inadequate to maintain and replenish the stock, or rental income was spent elsewhere by local authorities who themselves were often under financial strain. The development of new housing was dependent on capital allocations from central government.

As political priorities and economic circumstances fluctuated, so too did the supply of public sector housing. This meant that the supply was uneven, and lacked a programmed approach linked to demand and the wider housing market. From a very early stage, tenants had the opportunity to purchase their dwellings through various favourable tenant purchase schemes. In 1999, Fahey noted that local authorities had built 330,000 dwellings in the hundred years of their existence, and of these 230,000 had been sold (Fahey, 1999, at pp.3-4). Indeed in the subsequent 15 years, a further approximately 14,000 units were sold. Obviously, this has had profound consequences for the overall supply of social housing, but it also had the effect of “residualising” the social housing stock, whereby the most economically able tenants chose to purchase their homes.

These characteristics have led to a situation where there is a chronic shortage of low-income housing and none of the traditional policy levers are available to increase supply. Most obvious among these is an increase in the capital available to invest in new social housing either through acquisition or construction. Delivery of social housing has traditionally been the responsibility of local authorities, with an increasing role for the not-for-profit Approved Housing Body (AHB) sector, who have been assisted with a range of capital funding schemes and revenue

supports over the past few decades. Government policy seeks to grow this sector into the principal channel of social housing supply. However, the AHB sector as presently constituted is highly fragmented, and its small scale and limited financial skills means that it cannot deliver at the level required. Reality dictates that private-sector involvement in housing delivery is needed.

AHBs have been operating in Ireland for several decades. They are non-profit organisations focusing on the provision of rental housing for low-income households, and for special needs including the aged, persons with a disability, and homeless households. In that time, they have provided about 27,000 homes largely via non-repayable grants or loans. This funding flow has slowed to a trickle due to the State's fiscal situation. At present, the AHB sector is not equipped either financially or managerially to fund or deliver that task at the scale required, and the measures that are being taken to build capacity in the sector are all medium-term goals. In 2013, the AHB sector added only 211 units to the social housing stock – less than the local authority output of 293, albeit that just over 500 units were in progress. Between 2014 and 2015, the sector dramatically increased its output to 357 units and 401 units respectively (DHPCLG statistics, various years).

However, constraints in the public finances has not permitted an increase of the order required to meet the demand. The lack of capacity in the AHB sector means that channel is not able to deliver at the level required. The private sector, which has been an outlet for those in need of social housing support for some years via rent supplement, and other direct leasing arrangements between local authorities and landlords, is no longer in a position to meet that demand. The overhang in supply that existed at the beginning of the economic downturn has by and large been absorbed, at least in the centres of main social housing demand. The absence of new private home construction, poor credit availability, and adverse consumer sentiment has meant that no meaningful new supply has come into the private market since 2008. The proportion of households renting in Ireland has risen to its highest level in decades. This has led to rising rents and dwindling supply. The social housing cohort who are seeking housing in the lower cost percentiles of the private rented sector are increasingly squeezed, and in this market, landlords are not inclined to the longer-term, lower yield offer of direct leasing to a housing authority.

Ireland has a politically-controlled rent-setting system that lacks a direct link between land, building and operating costs resulting in rents being set significantly below the cost-based approach used in most other European countries. Arguably the low level of social housing rents is at the core of the social housing problem in Ireland as articulated in later chapters of the thesis and are a defining element Irish social housing. Politically, a move away from a system that links rents to income would be extremely challenging making it problematic to move to a unitary rental model advocated by Kemeny (1995).

The Irish government has produced various policy statements on housing strategy over the years. These are discussed more fully in Chapter 3. The most recent, *Rebuilding Ireland: Action Plan for Housing and Homelessness* (DHPCLG, 2016) continues a long-term trend underpinning these strategies in, on the one hand, promoting capital investment programmes along traditional lines, and on the other, an emphasis on private sector provision through the deployment of revenue payment systems rather than capital injection. The policy has also been to give the AHBs a much greater role in housing provision, however the capacity of the sector is constrained by its relatively small scale. The Housing Policy Statement of 2011 envisages the AHB sector as the principal provider of social housing in the place of the local authority (DECLG, 2011). However, it would not appear at present that AHBs are sufficiently equipped to provide units and the pace and volume required. The main problem is lack of capacity in the sector – the voluntary housing movement, whilst consisting of over 300 AHBs has less than 15 organisations with any managerial or financial substance to commission new housing in volume. Most of the AHBs were established for a particular and locally based need, providing a small number of units in a particular community, or for a particular group, e.g. the aged. Even the capacity of the larger AHBs to borrow money is very constrained, and they generally lack capacity to manage complex building delivery systems. They are also constrained by the requirement to use State procurement procedures which tend to elevate costs and delay projects.

In 2016, the new Government brought forward a more comprehensive housing plan, *Rebuilding Ireland*. The stated objectives of which are to deliver 47,000 new homes through construction, acquisition and leasing, and to fund a further 75,000 private sector tenancies through the Housing Assistance Payments Scheme (HAP) (DHPCLG, 2016). Indeed, the Housing Agency (2016) found that 91,600 households were deemed to be in need of social housing support. Unlike other policy-focused documents, *Rebuilding Ireland* is an action plan that is in some

ways more holistic than other policy documents in that it attempts to see housing in a more rounded way incorporating the market as well as social housing for the first time. However, it offers little change to social housing policy. Importantly, the Plan signals the deployment of State land for mixed-tenure developments, and new “cost-rental” housing models, but these plans remain short on detail. Ultimately *Rebuilding Ireland* commits to an expansion of the capital programme to develop new housing via the local authorities and AHBs, while increasing the targets for new HAP tenancies. It thus cannot be said to represent any shift in policy, but rather an acceleration of the existing policy direction.

In the absence of State capital to acquire or build new social homes, policy and practice has moved to sourcing properties from the private rented sector, on medium-term leases of from five to 10 years, and then sublet to a social tenant at a differential rent. They are then effectively treated as if they were owned by the LAs (or the AHBs) but of course at the end of the lease the property is handed back to its owner. This system is known as the Rental Accommodation Scheme (RAS) or the Payment and Availability Agreement (PAA) system. However, the private supply system is currently under stress. While it operated satisfactorily in the recession of 2008–13 when supply of residences exceeded demand, in the current circumstances of tight supply and rising rents in areas of high social housing demand, it is resulting in private landlords terminating existing social tenancies and not taking on new ones. The consequence is severely constrained availability at a time of expanding demand. Furthermore, the existing Irish rental sector is very much a “cottage” industry of individual private landlords with 65% owning just one property, and just 19% owning three properties or more (Housing Agency 2014). This factor has had significant impact on the nature of the industry and its practices and procedures. However, as evidenced by the recent investment by REITs and others in over 3,000 rental units in Dublin, professional property investors from Ireland and overseas are available, in the right conditions, to invest in large-scale rental housing in Ireland. However, this is a new industry – one which has the potential to professionalise the sector with tenants being treated as long-term customers.

The Irish private rented sector has long been characterised by small-scale landlords, 90% of whom own one or two properties. Residential property poses a number of challenges for large-scale and institutional investors. Yields tend to be lower than those available in other real estate asset classes. Availability of stock at sufficient scale to attract institutions is problematic. Data on the performance of the sector is less available than other property assets. There are also higher

management costs, and greater political and reputational risk (whether real or perceived). This notwithstanding, more recently, large-scale investors have been attracted to Irish private rental residential property by the low values, strong yields and high potential for capital growth. These new investors include short-term foreign equity funds and the new REITs, one of which was established solely to deal in residential property.

For institutional investors, especially pension funds, residential property represents a good diversification strategy, and can produce cashflows that generally rise in line with incomes, thus providing a hedge against inflation and a useful means of matching assets and liabilities. That said, however, such investment is at a very low level in Ireland and the UK, and only in a few European countries is residential property a substantial component of institutional portfolios.

The barriers to institutional investment in housing generally are greatly magnified when it comes to social housing where perceptual problems around management, maintenance, and concerns around future values combine with even lower yields than general market housing, and lack of any precedents for such investment. This thesis argues however, that the long-term, steady returns with modest uplift in rents that social and affordable housing can produce should be well-suited to institutional investors. It sets out to develop a model that can produce long-term steady yields with modest rental uplift and capital appreciation that should be attractive, in particular to pension funds. A further attraction of social housing should be the government backing of the system via revenue payments. However, if pension funds are to be drawn to a new asset class, it is necessary that the returns are better than sovereign bonds, but if returns are at similar levels to other real estate asset classes, then it is unlikely that rents can be produced at an appropriate level for social and affordable housing. Accordingly, yields will need to fall in this range.

Affordable housing, as a subset of social housing, is allocated on the basis of need, but envisages a lower level of support or subsidy from the public sector. Subsequent chapters deal more fully with the taxonomies and typologies of housing systems and analyses. This new “affordable” housing category would be provided in consideration of (a) the land, and (b) the provision of a government-backed lease. It would not require any transfer payments. In return, key workers would be provided with long-term rental housing at below-market rents. This meets three public policy objectives: (a) new supply; (b) affordable rental housing, and (c) new social housing sourced from the private sector. It also meets the needs of investors in providing

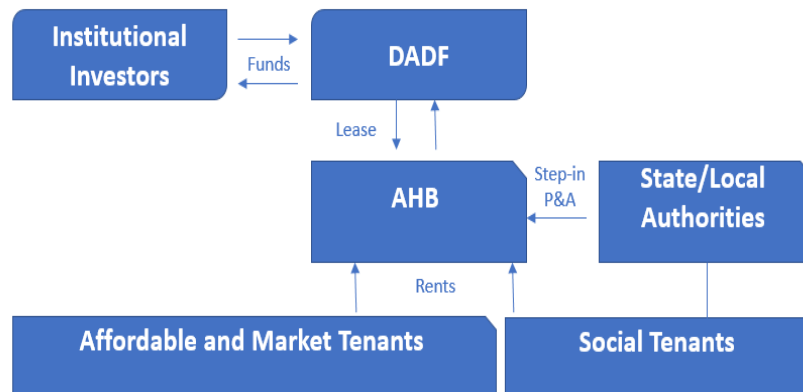
a balanced and viable property-based investment. This thesis seeks to set out a way of providing the additional stock required via new financial methods and a more self-sustaining system of housing provision and finance into the future.

1.2 Aims and Objectives

The aim of the research is to examine financing structures for the delivery of social/affordable housing by the private sector, develop and test a model for funding future provision via the property investment market. It is a hypothesis of the research that a model(s) can be constructed that would attract large-scale institutional investors into the sector. Such models seek to provide a rental stream at an acceptable yield based on particular features of the investment instrument that is designed. The absence of such structures has been a serious deterrent to private equity financing into this asset class. Indeed, this has been the stimulus behind a project to establish a fund for social and affordable housing investment in Ireland. As such the findings are tested and reported in a “real world” context. The theoretical framework adopted is historical institutionalist in nature, so both the theory and the model assumptions are tested against real institutional structures in housing, politics, commerce, law and non-governmental sectors.

The model developed to induce investment into social and affordable housing is based on research that seeks to meet the needs of investors but also to create stable, sustainable well-managed communities that can provide a high standard of security and comfort for tenants over the long term at affordable rents. The principle adopted to achieve this is cost-based rents which are the basis of many social housing systems throughout Europe where rents are based on the cost of producing the dwelling rather than the maximum rent the property will bear. Usually cost rents are achieved by non-profit or limited-profit organisations who avail of certain state financial supports to reduce the cost of producing the dwelling, and apply the increasing equity in their portfolio to further capital investment. This model instead seeks to avail of cheap or free public sector land to take that element of cost out of the building cost and the cost of funding is reduced further by means of a “step-in” agreement where the Irish State commits to ensure income continuity in the event of failure of an AHB operator. Overall, discounts in the cost of finance, land, and efficiencies in construction and management are all applied to the end rent. In the proposed model structure (Figure 1.2), the investor is buying a long-term stable cash-flow income, the investment upside is a stable and secure indexed income and potential capital value increases.

Figure 1.2. Proposed Model Structure



In achieving the aim of this research the objectives of the thesis are as follows:

1. to develop a theoretical framework for understanding the processes and dynamics of housing relevant to the Irish context
2. to critically review the history, development and drivers of social housing in Ireland
3. to evaluate existing supply-side mechanisms and funding models in the delivery of social/affordable housing in Ireland
4. to provide an international comparative perspective of social/affordable housing and funding systems
5. to explore the characteristics and investment performance of residential property as income-producing asset class
6. to develop and test an investment vehicle for the delivery of social/affordable housing in Ireland

1.3 Research Methodology and Approach

The methodology underpinning this research is based on the research question whether institutional funding can facilitate the delivery of social and affordable housing provision in Ireland. The theoretical position adopted in this research is that social housing systems are heavily path-dependent: that is to say that once particular decisions are taken, the scope and range of subsequent choices is narrowed. This is sometimes due to positive feedback loops or the high costs of reversal (Pierson, (2004), but also due to mechanisms of “efficiency, legitimacy and power” (Mahoney, 2000) that constrain the ability of actors in the choices they can make. Path dependency can thus help explain how systems come into being, and how they

change. However, path dependency is not a complete theory in itself. This research casts path-dependency in the context of historical institutionalism – where institutions are sets of rules and conventions, formal and informal that govern human behaviour (North, 1990; Pierson, 2004). Housing systems exist in path-dependent institutional frameworks, which are generally stable for long periods of time punctuated by “critical junctures” when policy choices and change is required. From a path-dependency perspective the institutional framework considers the complementarity of social/affordable housing to investment criteria and role of stakeholders in delivering a new funding model.

In this context the thesis has six strands to research methodology namely:

- theoretical development that fuses path dependency theory with investment;
- assessment of the history of Irish social housing and international best practice through literature review;
- policy evaluation in relation to social and affordable housing in Ireland;
- secondary data analysis from industry sources (IPD/MSCI, JLL, CBRE) to analyse comparative investment trends and set perspectives for institutional investment in residential property and in particular social/affordable housing;
- interview evidence involving the employment of two stages of structured interviews, the first with key actors in the property sector, the second with pension funds;
- investment fund model development, requirements/characteristics and inputs;
- utilisation of the model in a real live housing scheme.

The methodology is designed to address the scale of the challenge in providing social/affordable housing. Given the constraints in the public finances, the research presented in the subsequent chapters of the thesis shows that the only real option is to move to a revenue-based support system to meet Government policy of increasing investment in social/affordable housing. In the absence of State capital, the challenge for the research is to show how stakeholders can draw down funds within an institutional investment framework using equity capital.

1.4 Thesis Structure

The introduction to the thesis in Chapter 1 sets out the background to the problem of the long-term shortage of social housing and sets out the aim, objectives and a summary of the methodologies used. The chapter briefly describes a proposed funding model based on cost rental housing, institutionally funded and leased to AHBs on long-term FRI leases. The essential hypothesis is that social and affordable housing should be amenable to institutional investors.

Chapter 2 considers the core underlying theory based on institutionalism and path dependency within the context of social and affordable housing. In particular the chapter focuses on the inter-relationships between the welfare state, social housing, institutionalism and path-dependency. The arguments postulated reinforce path dependency as a process within the theoretical framework of institutionalism and more specifically historical institutionalism. The literature review explores these strands creating the argument that path dependency provides a contextual framework in which to evaluate the role of actors in the delivery of institutional investment in the social/affordable housing sector.

Chapter 3 applies the historical institutionalist/path dependency analysis to the Irish housing system highlighting a series of critical junctures at which point institutional change occurs. Through this analysis, the evolution and development of the Irish housing system is explained with the starting point land reform and rural housing, moving then to the urban dimension, the links between housing and politics pre and post Irish independence. Various policy and financial initiatives such as rent control, tenant purchase and residualisation are articulated as part of the understanding of the social housing dimension. The chapter finishes with a review of contemporary housing perspectives and advocates that six policy initiatives critical for the social housing sector thereby setting an underpinning framework for low-income housing provision into the future.

Chapter 4 explores demand side drivers and existing supply-side models for social/affordable housing in Ireland coupled with the cost of new development. The chapter articulates the constraints on State provision, the relative strengths of the various actors and agencies involved and the need for alternative/complementary private sector led funding models. Specifically, Chapter 4 addresses the third objective of the thesis namely to evaluate existing supply-side mechanisms and funding models in the delivery of social/affordable housing in Ireland.

Chapter 5 considers social/affordable housing systems in six selected countries England, Australia, France, Germany, the Netherlands and Switzerland with selection criteria based on either an Anglo-Saxon politico-legal heritage or European countries which have very large and successful social housing systems or a high level of institutional investment in housing. The chapter draws upon a combination of primary sources and academic literature and identifies as appropriate parallels to and any lessons of the Irish system.

Chapter 6 analyses the performance of income-producing residential property as an asset class relative to all properties using MSCI data. International comparison utilises five of the case studies discussed in Chapter 5 supplemented by other countries with long total return data series for residential property and compared with the investment performance of Irish residential property. In addition, the chapter draws out perspectives from surveys of Irish institutions and defined-benefit pension funds in relation to potential investment instruments.

Chapter 7 details the various components of the Fund model including structure and governance issues. The chapter articulates the extensive engagement with stakeholders including high-level meetings, briefing papers to Government and consultations with the public, private and voluntary sectors to explain and actualise the Fund.

Chapter 8 explores how the Fund was brought to reality. The chapter specifically sets out how the Fund entity emerged from the subject of this research. The operationalisation of the Fund is illustrated through a detailed consideration of the New Bancroft case study.

The final chapter of the thesis assesses the policy impact of this research and its interaction with the institutional and policy-making framework. It argues that the research has led to an acceptance of the need for an intermediate “affordable” rental tenure. It has also highlighted the absence of an overall State policy for housing, and deepened understanding of cost-rental models.

CHAPTER 2: HOUSING, INSTITUTIONALISM AND PATH DEPENDENCY

2.1 Introduction

In theoretically framing why social and affordable housing in Ireland requires a new model of provision, it is necessary to understand the processes that have shaped the system as it is at present, and the factors and influences that will be important in developing or advancing any innovations in the area. Housing has very particular features as an asset class in terms of uniqueness, lumpiness, durability and relatively high cost. It also has extremely deep cultural resonances as a locus of family, identity, social status, source of wealth, and other deeply entrenched semiotic significances. While every advanced economy in some way supports households who cannot afford market prices for their accommodation, there remains an almost ubiquitous problem of providing adequate accommodation to meet the housing needs of urban populations in particular. This problem is of course most acute for poor and lower income households who depend on the city for their livelihood in one way or another, but for whom market rates for housing are unachievable. Of course, affordable housing is not an issue unique to urban areas, and indeed rural housing has lain at the root of movements for social change in many countries – including Ireland. For these reasons, housing is deeply entrenched in the political, social and economic discourse of all countries and is rooted in the structure of modern capitalist societies.

As Aalbers and Christophers (2014) note, property and land are one of the reasons for the development of states. In early human societies, wealth was derived directly from the control or ownership over land and resources. Thus, the structures that were required to allocate and sustain these resources led to the establishment of the rules and conventions that developed into polities and states. As land is a prerequisite for housing and one of its key uses, governance and issues relating to housing are inevitably central to modern societies. The role of land in a society is therefore a complex nexus of economic structure, social relations, political culture, and historical development. Put more simply, as control or ownership of land is one of the key sources of wealth and power in human societies, a great part of the social structures that govern human interaction are rooted in the need or desire to produce mechanisms to preserve stability and continuity in these constructs. Accordingly, the conventions and rules, both informal and formal, that go to make up human societies form a dense and complex web within which change takes place and continuity is preserved. Most human attempts to understand the world have been to understand these rules and conventions. A rich vein of scholarship has termed these

institutions and has developed a mid-range theory called institutionalism in which dynamics and stability in politics, economics and more latterly the social sciences are explained. As Lowe (2004) observes, following Merton (1949Harloe), a theory of mid-range is one between “the excesses of empirically empty grand theory or theoretically empty data gathering”.

As theory of the middle range (Merton, 1949), historical institutionalism offers the potential to understand change and stability mechanisms at a level of magnification that is neither too “grand” in its scope, nor too small in merely attempting to assemble data without generalising at all. The very strong strain of neo-Marxian analysis that permeates much social science discourse cannot be ignored in this regard: this analysis which sees most of the institutional change in the world as part of “neo-liberal” project may be theoretically sound, but is of no particular help in this thesis. First, the starting point of this research is to bring private investment into social housing – almost definitionally hostile to the world view of this analysis. However, a review of the literature in this area would not be complete without reference to this school, exemplified well by Harvey’s (2005) critique of neoliberalism and Peck and Tickell’s (2002) essay “Neoliberalizing Space” which attempts to outline the neoliberalising processes. In housing terms, Blessing (2015) looks at housing reforms in the US, England and Australia through this prism, while Pawson and Fitzpatrick (2014) confine their analysis to the latter two jurisdictions. Norris and Byrne (2016) take a similar approach in an Irish context. It is not that these ideas lack power or cogency in charting changes to social housing provision systems, but their solution appears to be an unspecified return to State provision without explaining how this can be achieved.

Social housing analysis is inevitably bound up with the broader welfare state. Torgersen (1987) described it as “the wobbly pillar under the welfare State”. Esping-Andersen’s (1990) monumental study of welfare state regimes was especially useful in understanding State support systems. Though Esping-Andersen conspicuously omitted housing from his study, it remains extremely important in analysis of welfare systems. Esping-Andersen’s analysis also fits well into the path-dependency/historical institutionalist analysis used here. O’Sullivan (2004) considers it in an Irish context, while Norris (2016) presents a fresh and original perspective on Irish housing and the Irish welfare state in developed differently rather than more weakly compared to other European states.

This chapter considers the inter-relationship between the welfare state, social housing, institutionalism and path-dependency and in doing so addresses the first objective of the thesis in providing the theoretical framework for the research.

2.2 Housing and the Welfare State

As regards pure theory however, the fundamental reason why interventions are needed in the housing market are required are in the structure of capitalist economies. Housing has often been discussed as the “wobbly pillar under the welfare state” (Torgerson, 1987) and in all advanced economies, some form of support is offered to poor households by the State through various means. Jacobs and Manzi (2017) argue that analyses of housing policy are either too broad and “structuralist” in nature (e.g. Harvey, 2010) to be insightful or are too narrow and focused on administrative interventions. Aalbers and Christophers (2014) point out that housing policy is either seen as a social policy analysis, or housing in the market as essentially a subject for mainstream economics. This is important. The absence of literature on private involvement in social housing probably derives from this bifurcated approach to housing studies. Aalbers and Christophers argue strongly that housing needs to be placed more centrally in political economy, and by implication that housing policy analysis needs to be more all-encompassing. Aalbers and Christophers highlight that a key missing part in housing studies is the sharp bifurcation between housing as an economic market commodity and the housing support systems that are supported by government policy.

To consider the nature of interventions for lower income households to support their housing needs, it is necessary to reflect on the role of welfare systems in advanced capitalist economies. However, it is too imprecise to use the term “welfare state”, as housing in many countries is outside the formal welfare system. Esping-Andersen’s (1990) study radically recast studies of the welfare state into his tripartite categorisation of what he terms “welfare capitalism”. In this analysis, capitalist economies have adopted strategies for the “decommodification” of labour to varying degrees. Countries in the Anglo-Saxon tradition have tended towards a minimalist system of provision for the very poorest households. In this model, benefits are means tested, often stigmatised, and very much focused on maintaining the marginal benefits of work over welfare. The second category is a type of corporatist, insurance-based system, which while affording rights and benefits with a strongly decommodifying effect, were nonetheless based on class and status. Thus, systems in Germany, France and other mainland European countries follow this model where the State adapted or took over corporatist structures, typically based

on church or guild-type support mechanisms. The final category in Esping-Andersen's typology is the "social-democratic" found in Nordic countries based on principles of universality and equality. Here, welfare benefits are extended well into the middle classes, and are designed to provide high-quality public services that crowd out the market. Thus "all benefit; all are dependent; and all will presumably feel obliged to pay".

Esping-Andersen omitted housing from his study of welfare states and typologies. This most likely occurred due to the highly ambiguous – if not tenuous – position of housing within the welfare state. Torgerson (1987) argued that housing "always will occupy a special and awkward position in welfare thinking due to the special nature of the commodity in question". Stephens and Fitzpatrick (2007) consider the links between welfare regimes and housing in the context of Esping-Andersen's concept of decommodification where housing outcomes are achieved independently from labour market outcomes. Stephens and Fitzpatrick challenge the equation of Harloe (1995) of decommodification of housing with state provision, noting that patterns of housing consumption, quality of public housing and its distribution are not accounted for in this analysis. They also reject the assumption that there can be no decommodification in the private housing sector. This brings us to an important point in the context of the long-run institutional change in housing in Ireland, and indeed across Europe. Abandoning purely publicly or wholly non-profit housing as the locus of housing welfare opens up crucial perspectives on new models of provision.

The work of Kemeny (1995) is perhaps the most influential and seminal of all in housing studies through the analysis of rental housing using dualist and unitary models where in the latter the profit and non-profit sectors were much more closely integrated than in dualist systems where social housing was heavily residualised. While Norris (2014) argues that there may be some narrowing of that gap in Ireland in recent years though concedes that it is a very weak unitary market if it exists at all. Kemeny identifies the strength of the unitary rental systems to the "maturation" of assets and the basing of rents on cost of production rather than market prices or household incomes. However, Kemeny's theory is predicated on a debt-funded model of housing and hence is heavily immersed in the evolution of housing systems in different countries, but pays little attention to the market provision of housing and potential to leverage the market for the provision of social and affordable housing. It is therefore submitted that many of the benefits of the unitary market can be attained without the

assumption in Kemeny's work that this can (a) only be delivered through maturation of debt-based assets and (b) that only non-profit providers can bring about these benefits.

Lennartz (2011) more thoroughly surveys the literature with regard to the placing of housing within welfare state regimes and the validity of applying Esping-Anderson's categorisation of welfare-state regimes to housing. Lennartz further challenges Kemeny's typology and understanding of welfare states as they relate to housing, observing in the context of privatising programmes in three integrated housing markets that "privatization pathways beyond the common defunding policies could indeed be interpreted as path-dependent system divergences in Western European rental housing", and that "the realities of rental housing markets and the new power constellations, as well as the outcomes on the market seem too complex to be reflected by the two-fold dualist/integrated market typology".

Ghekiere (2008) characterised European social housing systems according to a typology based on tenure, the provider of the services, the beneficiaries and the funding. Accordingly, European social housing systems can be described as universalistic, targeted, generalist, or residual. A universalistic model is based on a public policy that seeks to ensure adequate and affordable housing for all, for example Sweden (where housing is provided by municipal housing companies) and the Netherlands (where non-profit organisations are used) to provide a large volumes of housing. "In this context, social housing assumes a market-regulating role (e.g. through rent control) to guarantee the whole population's access to quality and affordable housing, whereby social housing is typically allocated via waiting lists" (European Parliament, 2013).

2.3 Historical Institutionalism

The underlying theoretical framework adopted in this thesis is that of historical institutionalism. Institutions are sets of rules and conventions, both formal and informal that govern human behaviour (North, 1990). Historical institutionalism attempts to understand and interpret the world in terms of the development of institutions in a temporal context. Key works in this canon include Skocpol (1979) and Pierson (2004) both of which explore politics through this prism. North (1990) takes an economic perspective. Efforts to apply historical institutionalism to housing are most notable in Lowe (2004) where he offers a detailed account of British housing policy. Bengtsson et al (2008) examine the development of Nordic housing systems in this context. Norris' (2016) analysis of the Irish housing and welfare policy though not explicitly

institutionalist in its analysis follows the same approach, also deploying path dependency as a method.

Hall and Taylor (1996) provide a useful taxonomy of institutionalist thought. Institutionalism has a number of strands, characterised as “rational choice”, “sociological” and “historical” institutionalism (Hall and Taylor, 1996). Steinmo (2008) neatly summarises the key differences. While all agree that institutions are “rules that structure human behaviour”, they differ in their interpretation of these institutions. For rational choice proponents, most strongly characterised in economic institutionalism, humans act rationally balancing costs and benefits, while for advocates of a sociological approach, people act according to habit and appropriateness Pierson (2004), though more in the historical institutionalist camp, argues that rational choice offers essential tools to institutionalist analysis but that rational choice theory in focusing on strategic interaction in close-up can miss the broader sweep of temporal processes, the importance of sequence, and the role of “macro structure”.

“Historical” institutionalists see context and the nature of the rule in question as the key factors in understanding institutions. Historical institutionalists neither see humans as entirely rational choice actors nor as simple rule-followers. Therefore, what a historical institutionalist seeks to understand is “why a certain choice was made and/or why a certain outcome occurred” (Steinmo, 2008). Thelen (1999) reviews the variants of institutionalism more thoroughly, noting again that historical institutionalists place a strong emphasis on context, and are inclined towards a greater emphasis on empiricism rather than pure theory. She observes that rational choice institutionalism is inclined towards an assumption of equilibrium order that perceived change as a move towards a new equilibrium, whereas historical institutionalists focus more on historical processes. This is important in examining the evolution of housing systems which are located between market and non-market institutions, and are thus to some degree always in process.

It is through this prism of historical institutionalism that this thesis examines the rationale for institutional funding of social and affordable housing. It is important to distinguish clearly that institutions are rules and conventions that organise societies. Defining in the negative, we do not mean institutions in the sense they are often taken in everyday speech as, e.g. universities or other bodies corporate, but rather the underlying rules that govern human behaviour. These rules can be formal or informal. For Hall and Taylor (1996) historical institutionalists see institutions as “the formal or informal procedures, routines, norms and conventions embedded

in the organisational structure or the polity or political economy”. This definition is broader and more useful than that of Streeck and Thelen (2005) who see institutions in more formal structural terms, whereas others (Hall, 1989) see them as also informal codes of behaviour. North (1990) sees a crucial distinction between institutions and organisations. He uses a sports analogy to describe institutions as the rules of the game within which players attempt to win by knowing the rules and perhaps even infringing them if possible. The rules not only include the formal code but also the unwritten code and conventions that go to make up the game. For North, organisations are collective entities that exist for some purpose that is related to the institutional framework but in turn influence the evolution of that framework. They are then the agents for change, within which he seeks to explain institutional change.

Capitalism is an institution that organisations operate with to achieve certain goals (profit). Private property is an institution that has given rise to much of the law (an institution) and politics (a combination of institutions) that determine how capitalism operates. Other rules, written and unwritten, give rise to institutions such as the welfare state which both are products of, and influencers of the political system. Within the welfare state as an institution, there are institutions like state pensions, children’s allowances. In understanding institutionalism, it is necessary to consider an institutional framework rather than try to untangle the myriad individual institutions that go to make up the complexity of modern economic and political life. Of course, it is possible to follow the thread of any individual institution, but it is seldom meaningful without a broader view of the context and other influencing institutions.

To understand the challenge and importance of bringing about a new supply of social and affordable housing finance, an appreciation of the institutional framework for housing is necessary. That framework has by and large come into existence over the past 150 years in Ireland, and indeed over most of the developed world. Because of the factors noted early – lumpiness, durability, high cost of production, and high transfer costs, change in housing provision patterns is slow, and policy changes can take some time to impact. Added to this, the strong personal, social, cultural and political significances of housing in modern societies means that housing must necessarily be deeply embedded in the institutional framework of societies. Some frame of reference that permits analysis of the dynamics – as well as the stability and continuity – of housing systems is required. As Steinmo (2008) argues institutionalism has been criticised for offering no explanation for change. Indeed, the nature of institutions is inherently difficult to change as each institution is embedded in a larger

institutional framework. While North sees organisations as the agents for change, it is important to identify the processes that bring about that change.

Thus, historical institutionalism is a theory that identifies “institutions” as the rules and conventions that govern human behaviour and which both determine how societies are organised and which are themselves determined by humans. It sees history as crucial in explaining why institutions have formed the way they did, and seeks to explain them by looking to their historical development. Steinmo (2008) explains it thus:

“Historical institutionalists understand that behaviour, attitudes and strategic choices take place inside particular social, political, economic, and even cultural contexts. Rather than treating all political action as if fundamentally the same irrespective of time, place or context, historical institutionalists explicitly and intentionally attempt to situate their variables in the appropriate context. Thus, by deepening and enriching their understanding of the historical moment and actors within it, they offer more accurate explanations for the specific events that they explore than had they treated their variables outside the temporal dimension”.

Pierson (2004) notes that while there is a rich tradition of using history in the social sciences, it has often been to mine the past for empirical material rather than to study the particular processes by which structures change over time and is somewhat critical of other historical institutionalists for focusing more on the institutions than the history. For Pierson, a greater focus on the role of history will:

“provide stronger theoretical grounds for emphasizing the ‘stickiness’ of inherited social arrangements, for questioning functional explanations that is, claims that social arrangements exist *because* they meet certain needs of societies or particular powerful actors, for concentrating on issues of timing and sequence and for investigating long-term processes of social change”.

In his analysis of British housing policy, Lowe (2004) is influenced by historical institutionalism and considers that Thelen and Steinmo’s (1992) assertion bridges the gap between state-centred and society approaches and also permits a robust theoretical framework to comparative studies of housing systems. Lowe also holds that housing is inherently path-dependent.

2.4 Theory of Path Dependency

Given that historical institutionalism is the theory that underpins this thesis, and organisations are the agents that shape, and are shaped by the institutional framework, there remains the question of what is the process, the reason that explains stability and change in that institutional framework (Thelen, 1999). One of the key concepts that characterises historical institutionalism is path dependence (Hall and Taylor, 1996), the idea that once patterns are set in institutional frameworks that the range of options to change them is considerably narrowed. This sentiment was articulated by North (1990) as “a way to narrow conceptually the choice set and link decision-making through time”. Hence, path dependency is particularly well suited to an analysis of housing, as the nature of the policy area is such that decisions inevitably have long-term effects and are hard to reverse. Path dependency can therefore be seen as a process of tracing back the chain of decisions that have led to the particular nature of a housing system, and to identify why certain options may not be open to policy-makers or other actors in the system. Notwithstanding what North says of the predictive power of path dependence, it is certainly the case that the likelihood of certain choices or options materialising in the future can be ascertained using the method.

Bengtsson and Ruonovaara (2010) outline the evolution of path-dependency as an analytical tool in the social sciences, and in particular as it relates to housing. The strong form of path dependency (Sewell, 1996) “where what happens at an earlier point in time will affect the outcomes of a sequence of events occurring at a later point in time” is not ultimately that useful, as Bengtsson and Ruonovaara point out, saying that “history matters” is a truism, not a theory. Other scholars have sought to narrow the definition of path dependency, for example Mahoney (2000) who describes processes where contingent events lead to deterministic structures and outcomes. However, the weaker form of path dependency put forward by Bengtsson and Ruonovaara “one event which is more or less contingent considerably changes the probability of subsequent alternative events or outcomes” is far preferable.

“Path dependence would then indicate a particular form of analysis that focuses on historical events and specifies in theoretical terms the elements that build up the path between those events. It assumes that history matters – but the empirical challenge is not to “prove” this general assumption (which is probably always true) but to identify in what respect and via what type of

mechanisms history matters in a certain context” (Bengtsson and Ruonovaara, 2011, p.195).

Kay (2005), though acknowledging the usefulness of path dependency, takes a more critical view of it in studying policy. He notes that it risks describing only stability and continuity not change. Malpass (2011) in contrast specifically illustrates how path dependence can describe a process of change as well as continuity. He also raises several key questions around path dependency – perhaps most significantly as to whether it should look at institutions or policies. Thus “social housing” is an institution, and following Kay (2005) policies are about choice and institutions are about constraint and stability. The answer is probably that both need to be studied in conjunction. However, taking the working definition of institutions as “rules and conventions”, within the strict sense Kay’s distinction rather describes an interplay between institutions where the policy is designed to maintain or change some element of the institutional framework. For Pierson (2004) it is precisely the description of processes of change, especially positive feedback/increasing returns and the effects of timing and sequence that make path dependence such a useful tool in analysing institutions.

The methodology of path dependency has been described as “writing history backwards”, in other words to trace back decisions and policy changes to understand why certain options are not chosen or are unviable. Bengtsson and Ruonovaara (2010) identify the processes of path dependence as efficiency, legitimacy and power, where efficiency relates to the ability of institutions to change and the costs involved in that change process (Hall and Taylor, 1996; North, 1990). Legitimacy is concerned with what political choices are available, viable or acceptable at any time, so power then is concerned with the ability of actors to make those choices.

2.5 Path Dependency Theory: Irish Housing Context

Bengtsson and Ruonovaara (2010) draw a distinction between “strong” versions of the theory where contingent events bring about determinate outcomes, while in the weaker version of path dependence “a historical pattern where one event which is more or less contingent, considerably changes the probability of subsequent alternative events or outcomes”. In this weaker version, for example, the agrarian roots of early State intervention in housing in Ireland, and the political environment in which it came about (Fahey, 1998; Norris and Fahey, 2009) determined the shape and nature of the social housing system for many decades, even after

dramatic improvements had been made to rural housing. Malpass (2011) takes a different tack in using path-dependency to explain the transformation in British social housing from a municipal-led system to a housing-association led one. He therefore differs from Bengtsson et al (2006) who used path dependency to explain the divergent approaches to the same housing problem in Nordic countries. Thus, he sees path-dependency as a means of examining change rather than simply continuity. Norris (2014) applies path dependency concepts like “critical junctures” to tentatively suggest that Ireland has moved from a distinctly dualist housing system (Kemeny’s (1995) seminal typology) to a weak unitary system since the 1980s.

Specifically, in the case of Irish housing and its development, a path-dependency approach both explains the history and evolution of supported housing, and the particular constraints that explain why the model postulated in this work, and the attendant variations and adaptations of that model, have been brought about by the pressures of a heavily path-dependent institutional framework. It is almost as though the hypothesis and attendant model put forward has been shaped by these forces. Bengtsson and Ruonavaara (2010), Kay (2011) and Malpass (2011) have each posited a different perspective on path dependency in housing studies.

For the purposes of this thesis, a path dependency analysis of Irish housing policy will show that the choices made over many decades narrowed options for the provision of housing into the future. However, following Malpass (2011) path dependency does not simply account for continuity, far more important is the gradual process of change. In this context, Norris (2016) offers a detailed path dependence analysis of Irish social housing. Her conception of path dependence, however, is inclined towards the stronger form put forward by Mahoney (2000). In this conception, path dependence is based on patterns of contingency and determinacy. Thus, for Norris path dependence explains stability, which is disrupted by moments of contingency – critical junctures – where change is brought about. This notion of critical junctures is common to all path dependency scholars. There is always a point at which a certain decision leads to a branching that affects the probability or possibility of an alternative decision being taken in the future – or put more positively that will greatly increase the likelihood of a further step down a similar path being taken in the future. Norris’ analysis is especially welcome, not only because of its timeliness and path-dependent approach, but also because she has carefully identified critical junctures in Irish housing policy development.

Malpass (2011) describes the incremental change in UK social housing provision from a municipal dominated landscape to one where a very substantial and capacious non-profit sector

is now the main provider of low-income housing. In Ireland the same shift in policy direction has been made at a lower level. The pace of the move in Ireland was much slower than in the UK, due to the much more consensual nature of Irish politics. In contrast in the UK where the power and legitimacy assumed by the Thatcher government drove through much more seismic changes. Thus the mechanisms assumed by path dependency analysis can be seen, *prima facie*, to explain the slower rate of change in Irish housing policy *vis-à-vis* the UK.

However, because Irish social housing finance methods were not sufficiently far removed from the State at the time of the GFC, the sector was severely adversely affected, and unable to adapt sufficiently quickly to disengage when the public debt skyrocketed. The loss of economic sovereignty that occurred when the Government programme with EU, ECB, and IMF effectively meant that the range of options open to the State to deal with social housing was further narrowed. The GFC was a critical juncture that meant the State had to pursue private sector capital for social housing purposes. However, this represents an acceleration of the scale of change already envisaged – or at least provided for in policy. Thus, again path dependency can explain not only continuity but also small patterns of change that have large-scale impact over time. The next chapters offer a detailed analysis of the Irish housing system.

As a framework for analysis, path-dependency offers much to this thesis. While it is not a predictive tool, it is important to the investment aspect this research that path dependency points to a durable private sector solution. As predicated in this thesis if the housing system is heavily path dependent and if the long-term trend in Ireland is towards private-sector provision, the Fund as postulated offers a solution that can benefit the State and end-user occupiers. It follows then that once established, the increasing returns and high costs of reversal (to the policy-makers) that are inherent in path-dependent processes further copper-fasten this mode of provision as both an investment proposition and a housing solution.

2.6 Investment perspectives

In facilitating the delivery of social and affordable housing in Ireland, the Fund to attract private sector finance needs to be based on the principles of investment and the application of institutional equity funding. Hence to achieve the hypothesis (ref 1.2), the research underpinning this thesis employs standard finance/investment analysis to create a product that fits the institutional investor model based on portfolio theory stemming from the seminal work of Markowitz (1952) and subsequent refinements (CAPM and the Efficient Market

Hypothesis) which analyse how asset allocation can be achieved with maximum risk mitigation at a given rate of return. A typical institutional investment portfolio is comprised of equities, bonds, property, cash, and alternatives with diversification benefits achieved by combining different asset classes with varying levels of correlation to produce an expected reward/risk profile.

In most European countries, pension fund allocations to property are low, normally in the range 5% to 10% (see Andonov, Kok and Eichholtz (2013); OECD, 2015). Long-term, property as an asset class outperforms bonds, but does not achieve the same returns as equities (Goetzmann and Ibbotson, 1990). However, property given its low correlation with bonds or equities has diversification value to institutional investors. Most of the research on property as an asset class has focused on the commercial sector (offices, retail, industrial) though the residential sector is increasing in importance as an investment type with organisations such as IPD/MSCI now producing reports on performance analysis on housing. Research has shown that property has a higher degree of liquidity via listed vehicles such as REITs or certain tradeable debt instruments which has led to the growth of indirect investment vehicles and funds across both the commercial and residential markets. However, challenges remain in attracting a weight of institutional funding into the social/affordable housing sector though the possibilities of institutional investment in rental housing (both for low-income and general needs housing) have been the subject of debate especially in the United Kingdom and Australia (Alakeson, 2011; Milligan et al 2013; Oxley 2010; Montague 2012; Lawson et al 2014; Milligan et al 2015). Also there are many barriers to institutional investment into residential property identified in the literature.

Firstly, low returns in comparison to commercial property. Jones (2007) reports that expected residential returns of 3-4% were well below the 7-8% returns from commercial real estate in Australia. Emergent evidence in Ireland is that relatively high yields – comparable to commercial yield – at present are likely to be reduced over time. Moreover, investors appear to expect a risk premium to reflect the fact that it is a new investment asset class.

Secondly Crook and Kemp (2002) identify the potential for rent controls or other regulatory impositions as a concern for investors in residential property. This is echoed by Milligan et al (2013). Berry (2000) adds that uncertainty over taxation treatment and vacancy rates may deter investors.

Thirdly, the fragmented nature of the sector and high transaction costs together with relatively small lot sizes make assembling a portfolio at the scale required by institutions problematic (Crook and Kemp, 2002). Also, while institutional investors may be interested in the long-term stable income stream of residential property, they will not have an appetite for the planning, development and construction risks involved. Accordingly, some intermediate actor may be required to bring developments to the market.

Fourthly, high management costs relative to other asset classes.

Fifthly, until recently there has been a paucity of data on the performance of residential assets whereas there is extensive time series information on commercial property (Berry, 2000).

More recent years have seen some improvement in sentiment towards investment in residential generally but investment in social and affordable housing present greater complexity. Private sector funds in the UK generally try to avoid households on housing benefit as tenants (Jones, 2007) and Crook and Kemp (2002) found that whatever attraction residential investment had at the upper end of the market for institutional type investors, there was virtually no interest at the lower end of the market. Large-scale investment in residential property in Ireland has only recently re-emerged after many decades of dormancy. The reasons for the “cottage industry” (Chapter 3) nature of the existing Irish residential investment market are manifold. However, the overwhelming predominance of owner-occupation as the tenure of choice by working households, and the State’s support for this tenure pattern is the single biggest factor. Discussion of the Irish private rented sector takes place in Norris and Redmond, eds, (2005); Sirr, ed. (2014) and Kenna (2011). However, only Stafford (2014) and MacLaran and Williams (2005) consider the issue from an investment perspective.

2.7 Conclusion

In concluding, the theoretical framework for this thesis posits a dense institutional network within which social housing operates. Those institutions which have the greatest bearing on social housing include the market, the welfare state, and the governmental apparatus. The institutional network is complex and the various interdependencies, together with particular characteristics of housing, and the political environment lead to a stable, and difficult-to-

change system. The system is heavily path-dependent, and path dependency is the approach that best explains the stability of the system, and the limited range of options there are for change. Certain junctures arise in the institutional framework whereby the range of choices has been shown to be determined by wider factors in the institutional framework, but timing and sequence are crucial.

The key to fusing the investment requirements of the property market with those of public policy in terms of delivering social/affordable housing lies in achieving appropriate investment yields with underwriting by government through guarantees or similar support mechanism. Investment theory is premised on principles of risk, return, liquidity assumes a level of market efficiency. Given that the need for mechanisms to provide social/affordable housing is due to market failure, the normal rules do not apply given that a pure investment approach will be based on cash-flows and the quality of counterparties to the transaction. However, current conditions based on returns and yields are not in themselves sufficient to attract institutional capital. Therefore, the task underpinning the funding model is to create the conditions by which that investment can be induced by delineating the features of the investment product.

The subsequent chapter will apply the institutional framework to Irish social housing setting the historical perspective within differing path dependencies. In doing so Chapter 3 sets the context for the investment model that is postulated in this thesis.

CHAPTER 3: SOCIAL HOUSING IN IRELAND, PATH DEPENDENCY AND FINANCIAL MECHANISMS

3.1 Introduction

This chapter considers the history of housing in Ireland from around the last quarter of the nineteenth century, at least insofar as public or philanthropic endeavours attempted to bring about new housing for poor and low-income households is concerned. It is from these early interventions that the modern “social housing” system emerged. While the chapter provides an outline account of the historical development of low-income housing, its primary concern is presenting a critical review of the history, development and drivers of social housing in Ireland and in doing so addresses the second objective of the thesis. Given the focus of the research particular attention is paid to the financial support mechanisms and the underlying political attitudes that would have such a strong bearing on the system as it emerged.

In examining the evolution of housing supports for poorer households from a theoretical perspective, the question that needs to be answered is how Government arrived at a position where no provision (outside Poor Law) was made for housing the poor, to a situation where loans were provided on increasingly favourable terms, through to the acceptance after World War One that subsidy was required if lower-income households were to be properly housed. This tracks the move from a *laissez-faire* economics to the welfarism that characterised the shift in British politics generally from the mid-nineteenth century to the post-War period, some further analysis is required, as Irish circumstances were markedly different from those that pertained in Great Britain through that period. A useful perspective in this context is provided by Fraser (1996) in surveying the approaches taken, beginning with teleological analyses originating in government recognition that there was a substantial portion of the populace unable to house themselves and the subsequent incremental steps that eventually led to the point where government subsidy for low-income housing became accepted policy.

Given the subject of this thesis, the financing of low-income housing, it is important that the evolution and history of social housing is understood, as the situation that pertains at the present day has been brought about by a unique set of factors that determine the peculiar nature of the Irish housing landscape. The avenues of reform and politically “possible” paths of reform are largely determined by this history. Accordingly, it is considered that a “path-dependent”

analysis of Irish social housing is more useful; its explanatory power is greater in terms of the available choices today, and in particular the Fund that is the subject of this thesis.

3.2 Land reform and rural housing

Lyons (1973, 26) succinctly summarises the nexus of politics and land that came to dominate Irish affairs in the latter half, and especially the latter quarter, of the nineteenth century, and the echoes of which are found down to the present day:

“That the land question was the engine which would draw the national question in its train was partially glimpsed by the tenant-right agitation of the 1850s and then brilliantly vindicated in the Land War which between 1879 and 1882, laid the foundation for the ultimate revolution in land tenure whereby over the next thirty years the tenant was enabled to become the owner of the farm he worked.”

Arguably the peculiarities of public/governmental involvement in land reform in Ireland persisted well into the twentieth century and laid the foundations for social housing which include the predominantly agrarian nature of early housing initiatives and the inter-wining of emergent nationalist politics with the “land question”. While historians now agree that the traditional picture of a ruthless, absentee landlord class exploiting a vulnerable tenantry under constant threat of eviction is largely false, nonetheless land reform was to become the defining political issue in Ireland up to the turn of the twentieth century. The major achievement of this movement was the transfer of farms to tenants, but it would also give rise to a further division as those same farmers were set in opposition to a landless and desperately poor class of agricultural labourer.

As Kenna (2011, 26) puts it:

“Landownership, (and with it security of housing), became indelibly linked to the other national issues of identity and independence from England. This agitation coincided with the English Liberal onslaught on the feudal land laws, which had perpetuated the permeability of large inherited estates from the market, and the absence of free trade or market in land”.

Land reform became politically important, and was in many ways the driving political force and point of common cause for the Irish Parliamentary Party that was to dominate Irish politics well into the twentieth century. The model of landholding that predominated in Ireland from the early nineteenth century saw large ascendancy landlords sub-letting parcels of land to “middlemen” for onward letting to tenant farmers in holdings of 1-15 acres. With the chronic labour shortage caused by the Famine, this pattern had begun to give way to small and medium farms leased direct from the landlord with the consequent loss of the middleman. However, housing for the very poorest – the rural labourer – remained extremely poor. Indeed, the Census of 1841 records the appalling conditions in rural Ireland with more than 40% of the population living in one-room cabins. Paradoxically, the loss of population caused by the Famine allowed the overall quality of housing conditions to improve, so that by 1861 only 10% of the housing stock comprised one room accommodation (Fraser, 1996, 23).

After the Famine, the restructuring of Irish agriculture and land-holding patterns led to a series of statutes, the Landed Property Improvement (Ireland) Acts (hereafter Land Improvement Acts) which provided for low-interest loans to landlords and lessees for improvements to their holdings – though it was not until the 1860 Act that the loans could be used for housing purposes. Under the Act, public loans at 6.5% were made available over a period of 22 years. The motivation for these Land Improvement Acts, the first of which was enacted in 1847 was to make Irish agriculture more productive and efficient. This in turn had much to do with the food needs of Great Britain and as Lyons described as “to alter the structure of Irish agriculture in response to the changing pattern of British demand” (Lyons, 1973, 43).

However, politics was to be an even greater force for change in rural Ireland, first in the long programme of land reform that endured even into post-independence Ireland; and secondly, but more importantly for the subject of this thesis – the succession of schemes to construct cottages for poor and landless rural workers. This in turn would provide the impetus, in conjunction with philanthropic and humanitarian concerns for a concerted effort on behalf of the nationalist political establishment to provide housing in urban areas, and would pave the way for what was to become the social housing system. The agrarian agitation that gave rise to the Land Acts was undoubtedly of profound significance for the long-term social structure of the country, but it was largely to the benefit of a certain class of better-off farmer. The reforms brought about did little to help the plight of the rural labourer. While accommodation standards had generally improved after the Famine, the emergent nationalist movement could not

countenance a situation arising where the predominantly Catholic population (its support base) could be split between the farmers who had acquired property through the land reform process and rural labourers who remained landless and marginalised. Accordingly, even as the reform process that led to the transfer of land began, calls emerged for the construction of rural cottages for labourers. Thus, even as the effects of the Land Acts transferring land to small farmers began to be felt, pressure to relieve the plight of the landless labourer led to a parallel set of statutes that came to be known as the Labourers Acts. The result of this effort was that approximately 50,000 houses were produced in Ireland in the period between the early 1880s and the outbreak of the First World War in 1914.

In approaching this period from the Famine times to the end of the nineteenth century in terms of the legislative and financial supports for housing, it is therefore necessary to understand the land reform movement, together with the dynamic of British and Irish politics. The Land Reform programme, beginning with the Land Act of 1870, as Guinnane and Miller (1997) have noted “was much more a wealth-distribution program financed by the Britain than a serious effort to improve Irish agriculture”, and that “the Land Acts were intended less as economic policy than as efforts to compromise with Irish political demands”.

The 1870 Act was designed to address the balance of rights between landlord and tenant. Foster (1988, 397) notes that he had accepted “to the dismay of many Cabinet colleagues, the Irish historical sense of a certain vested right in the land that had allegedly been expropriated from their ancestors”. The statute provided for legal underpinning for the “Ulster custom” (where tenants could sell their right in a holding). It also required tenants to be compensated for improvements made to land if they gave up their tenancy, thus improving security of tenure. More interestingly from the point of view of the present discussion was that the Act provided for tenant purchase on terms where two thirds of the cost could be borrowed from the State at 5% over 35 years (the Bright Clauses). However, as there was little incentive for landlords to sell, and most tenants could not afford to buy, the end result was that fewer than one thousand holdings were sold (Lyons, 1973).

The decade that followed was to see the crystallisation of a number of elements in Irish politics that would lead to more profound reform through the campaign for Home Rule that was established by Isaac Butt proposing Irish self-government through a parliament within the Union. Circumstances were particularly propitious for the growth of the new movement throughout the 1870s. The widening of the franchise, the introduction of the secret ballot, the

support of the Catholic Church were all important. The more extreme and separatist wing of nationalism, the Irish Republican Brotherhood (IRB) did not oppose or attempt to frustrate the development of the new movement, thus allowing it to grow. Lyons (1973) surmises that while neither the Land Act of 1870, nor the Act of a year earlier that disestablished the Church of Ireland were of seismic import in their direct consequences, they did have the effect of unsettling the long-assumed hegemony of the Protestant, landed classes, which in turn may have led those classes to be more open to new political options. Though Protestant support was very tentative, the removal of old certainties seems to have allowed it space to gain a foothold. Disastrous harvests between 1877 and 1879 coupled with renewed interest in agrarian agitation by more radical nationalists like Michael Davitt, led to land reform moving centre stage. The “Land War” and agrarian issues were co-opted by Charles Stewart Parnell who had replaced Butt at the head of the Home Rule Campaign, in order to build a broader based movement. As Foster (1988) observes, “There were two major ambiguities in Parnellism: the relationship between Home Rule and separatism, and the relationship between land agitation and nationalism”. Such issues are outside the scope of the present discussion, but the same land agitation led to a second Land Act introduced by Gladstone in 1881.

3.3 Urban housing

If the land reform programme under the Land Acts gave rise to the Labourers Acts which saw the standards of Irish agricultural labourers’ housing rise from some of the poorest in Europe to some of the best, urban housing conditions did not become an important political issue until after the turn of the twentieth century (Aalen, 2007). Agriculture was not only critical to the Irish economy, its produce was also vitally important to feed a growing industrialised population in Great Britain. Thus, land reform was not solely in the interests of the Irish tenant farmer; the British government also recognised the need for an efficient system of agriculture, and the political base of the Irish Party and its intertwining with the land reform movement drove this reform process. There was no such impetus to produce action to improve the drastically poor conditions that pertained for the poorer households in Irish cities and town.

The only part of the island that was industrialised to any extent was the north east, in particular Belfast. There, housing conditions were much better than those of Dublin. Fraser (1996) notes that while families in Belfast and Dublin might expect to pay a similar portion of their income on housing, a one-room tenement in Dublin would cost the same as a three-roomed house in Belfast. The long decline of Dublin throughout the nineteenth century meant that little new

building took place. The movement of the middle classes to the suburbs meant that the houses they left behind became subdivided into the tenement system that persisted well into the twentieth century. The lack of speculative building in Dublin was not mirrored in Belfast where there remained a good supply of new housing. Cullen (2011) also points out that unlike Dublin, industrialists in Belfast before 1850 had provided housing for their workers. Cullen also points out that the availability of cheap materials in Belfast meant that a four-roomed house could be provided for £45–50 in Belfast while the equivalent unit in Dublin cost as much as £165 (Cullen, 2011, 241).

Early philanthropic efforts to house the newly industrialised working classes in Great Britain were not reflected by action at the same level in Ireland. There were a number of reasons for this, the first and most obvious being that industrialisation did not take place in Irish cities and towns at anything like the scale that pertained in Britain. Urban housing conditions in Irish cities were however, as bad as anything in the United Kingdom. Daly (1984) charts the appalling conditions of lower-class housing in Dublin from as early as the late eighteenth century, but those that pertained in the early twentieth century were widely acknowledged to be as bad as anything in Europe. One third of the population lived in one-roomed tenements and death rates were extremely high in comparison to other European cities (O'Brien, 1982). Such non-State action as there was confined to some very limited housing provision by industrial concerns such as Pim's, Guinness, Watkin's and the railway companies, but these only amounted to 569 dwellings by 1914 (Daly, 1984). Limited philanthropic housing was provided by the Guinness Trust (later Iveagh Trust) in the southwest of the city of Dublin.

Concerns about outbreaks of cholera and other diseases in Dublin from as early as the late 1840s had led to call for action on housing. A Public Health Committee was established by the Corporation in 1866, and in that year the Labouring Classes (Lodging Houses and Dwellings) Act provided for public loans at 4% for 40 years to housing companies in respect of half of the cost of construction of dwellings. In the following 20 years, 3,426 dwellings were completed under the Act. Notably, the first effort at a semi-philanthropic company, the Dublin Industrial Tenements Company built only one scheme which later failed (Fraser, 1996). A smallpox epidemic in Dublin in 1872 was linked to conditions in the slums and led to the formation of the Dublin Sanitary Association. Fraser (1996) notes two important effects of this body: first, it led to the adoption of housing, sanitation and other standards by the Corporation, and secondly it led eventually to the extension of the Artisans' and Labourers' Dwellings

Improvement Act 1875 (the Cross Act) to Ireland. This provided for loans to local authorities at 3.5% over 50 years to clear sites for the provision of new housing by private concerns.

The Sanitary Association initiative also led to the establishment of the Dublin Artisan's Dwelling Company (DADC) which would go on to build over 3,600 dwellings throughout the city. Though firmly committed to commercial principles (it paid a dividend of between 4 and 5%), the DADC was the beneficiary of both public loans at advantageous rates and the provision of sites by Dublin Corporation to the company at a loss (Fraser, 1996). However, Daly (1984) notes that rents of the earliest schemes were approximately 40% of the wages of an unskilled worker. Although the company played an important role in adding to the housing stock, and undoubtedly provided quality accommodation for skilled workers, some public servants and better-off and securely employed labourers, the problem of chronically bad accommodation for the very poor remained.

Both Daly (1984) and Fraser (1996) speculate on the reasons why the authorities did not move to improve standards of accommodation in the private rented sector where most of the poorer inhabitants of Irish towns lived in tenements. As mentioned above, the Corporation had adopted standards, and there were bye-laws and sanctions in place. The authors attribute this to a general concern that however bad the housing conditions might be, its closure would leave the inhabitants utterly destitute. It also appears that landlord interests were well represented in Dublin Corporation, and further the requirement to pay compensation to landlords acted as a significant brake on closure and clearance of poor accommodation. While it was recognised that the urban housing issue required urgent action, the political will to act was severely constrained by a number of factors. Indeed, the predominant *laissez faire* economic ideology favoured private sector action as the means to provide housing and the repeated experience of projects in urban areas demonstrated that there was no financially viable way to provide housing for the very poor. While this ideology pervaded central government thinking in London, indigenous municipalities were unwilling to burden their ratepayers with additional costs in subsidising rents or paying down loan charges. The political imperative that drove the rural land reform packages (both the Land Acts and the Labourers Acts) was not strong in urban areas. Thus, the bulk of measures proposed throughout the UK for the provision of housing for poorer households were based on loans on more or less favourable terms for the provision of sites or housing which in turn had to be let at economic rents – that more often than not could not be afforded by the poorest households.

Repeatedly, schemes failed, or rents were too high to cater for poorer households. Direct municipal action began in Ireland in Waterford in 1878 where the Corporation-built scheme could not produce rents that were affordable by the poorest households. Dublin Corporation's first scheme in 1886 produced low rents, but the standard of construction was so poor, the buildings required remediation and were deemed unsanitary in just a few years (Daly, 1984), and the Corporation was accused of building slums (Aalen, 2007). In Cork, the Corporation proposed to clear seven areas in the city and to lease them to a semi-philanthropic company in 1878, but only three areas were cleared and at a loss to the Corporation. By the turn of the century, approximately 750 municipal and semi-philanthropic dwellings had been provided in Cork, but as with elsewhere, with limited impact on the overall demand, or for the very poorest (Cullen, 2011). However, Fraser (1996) notes that housing activity by Irish municipalities far outstripped activity by those in Britain, noting:

“Ireland with an urban population only 5 per cent of that in Britain, had produced nearly 25 per cent of Britain's stock of municipal dwellings. Even before 1890, Irish urban housing was comparatively more municipalised”.

Certainly, the link between poor housing and wider social problems was recognised, but however well Irish municipalities compared to their British counterparts, the dearth of the philanthropic activity and relative absence of speculative building meant that housing conditions for poor households in Irish cities remained desperately bad. Aalen (2007) notes that 20 percent of Dublin's housing stock was made up of Corporation, philanthropic or privately constructed workers' dwellings in 1914 – a greater proportion than any other city in the United Kingdom. However, it would appear that over 3,000 of these were DADC dwellings, and the Government-appointed inquiry into housing conditions in 1914 estimated that 14,000–20,000 units were needed.

3.4 Housing and Politics 1900–1921

Fraser (1996) dates the turning point in British policy towards urban housing as 1916 when in the aftermath of the Easter Rising:

“The belief in Britain, however misguided, was that the most effective way to control Irish disaffection was to address urban grievances rather than rural issues. From this point on, the Castle administration consciously employed housing as a political tool”.

However, it is likely that the Rising marked the end of a process that had been ongoing since the turn of the century which meant that the issue of urban housing, especially in Dublin, could no longer be ignored. Daly (1985) points to a substantial housing crisis in Dublin in the first decade of the twentieth century, caused by a weak economy and rising unemployment meaning many households downgraded their accommodation. The stock was in very poor condition, and there were several fatal accidents as a result. Moreover, rising interest rates affected the cost of new development, and led the Dublin Artisan's Dwelling Company to stop building in 1907.

The introduction of the Local Government Act 1898 had significantly widened the franchise in urban areas, and the emergent labour movement was also posing a threat to the bourgeois status quo in local government. This, of course, is in addition to the tumultuous political events of the 1913 lockout, the outbreak of World War I and then the Rising itself. However, the political environment was not attuned to the needs of the urban poor. Foster (1988) puts it thus:

“Yet Dublin politics remained orchestrated by the increasingly nationalist corporation, dominated by small manufacturers, grocers and publicans, and fixed on the iniquity of British Rule rather than the shortcomings of social organization in the city Vested interests meshed with political apathy: Catholic nationalism in the form of bishops as well as politicians, was firmly dedicated against committing any future Home Rule state to burdens of social expenditure and secular welfarism A more widespread kind of organization was necessary before national attention was brought to bear on urban conditions”

The hegemony of the Home Rule nationalists was coming under increasing threat from the growing labour movement under the radical trade union organizer, James Larkin, and also from more militant nationalists in the form of Sinn Féin. Further, “the Irish Party was forced to turn attention to social legislation in face of its inability to deliver Home Rule” (Fraser, 1996). Part of this was a firm determination to deliver a new Labourers Act. The 1903 (Wyndham) Land Act was the apotheosis of the land reform programme, providing for massive transfers of land to tenants and forcing landlords to sell entire estates if three quarters of the tenants concurred. Some shortcomings in the workings of the Act were addressed in 1909, but the Wyndham Act was a significant milestone in the land reform programme. But for the Irish Party to keep its coalition of Catholic nationalist-minded citizens together, action would also be required to

provide for farm labourers. While as Fraser (1996) notes, the situation of rural housing in Ireland had dramatically improved, the terms of the 1906 Labourers Act were exceptionally generous. Loans could be obtained by local authorities at 3.25 percent over 68.5 years. Most significantly, especially for a Liberal Government, the principle of subsidy was accepted where the State made up 36 percent of loan repayments, and a dedicated loan fund was put in place. With these new provisions, local authorities could provide better quality accommodation to tenants at approximately 10% of their income, and increasingly could do so at no additional cost to their ratepayers (Fraser, 1996). Moreover, Fraser identifies two huge steps in the evolution of housing in Ireland. First, the principle of subsidy for housing provision was almost universally accepted in Ireland. Secondly, and importantly, the phase of the Labourers Act programme from 1906 to 1914 almost completely dealt with the issue of rural housing and this led many local authorities to provide housing to other working-class households, not necessarily intimately connected to agriculture.

This progress on rural housing compared to the poor state of working-class accommodation did not go unnoticed, and the Irish Party was acutely conscious of the political threat from militant nationalism and Labour representatives in the towns and cities. If the principle of subsidy was well accepted throughout Irish political life, the same could not be said for the Parliament in London. While prepared to indulge in a certain amount of exceptionalism in acknowledgement of the poor state of rural housing in Ireland, there was no appetite to concede on the principle of subsidy for urban housing.

The Housing of the Working Classes Act 1890 was a pan-United Kingdom statute that led to a flurry of construction activity throughout Ireland, but especially in the Dublin suburban local authorities. The Act contained several important innovations, including giving the power to local authorities to demolish unfit properties without compensation, and to develop on new land in their functional area. It also provided improved loan terms of 3.125 percent over 60 years. However, the issue of subsidy remained, and pressure to bring about a new urban housing law in Ireland led to the introduction of the Clancy Act in 1908. Though much diluted from the original Irish Party proposal, the Act is an important milestone in the evolution of housing policy in that it did contain an element of subsidy. Among its significant provisions were a power to local authorities to build outside their own boundaries. This was significant in the growing pressure to build working-class housing in the suburbs rather than in the city centre, and it also provided an answer to the problem of displacement that could arise in the

case of slum clearance and replacement. As Daly (1984) notes, the financial aspects were the most important. Housing loans were removed from the local authority borrowing ceiling, loan terms were extended, and a two-year moratorium on repayments was provided for. The subsidy though tiny and massively diluted from the original proposal (from a subsidised £5 million loan fund at 2.5% to a £6,000 Housing Fund) represented a divergence from mainland British policy for the first time and breached the longstanding government resistance to the principle of subsidy for urban housing.

Fraser (1996) attributes the Clancy Act with the further galvanising of general opinion behind the municipalisation of housing, the direct build by local authorities. Despite the weakness of the subsidy the Act led to an increase of almost 700 percent in loans in the five-year period to 1913 in comparison to the five years before 1908. Crucially, local authorities found that they could fund schemes without recourse to the rates. Development took place throughout Ireland, with the south Dublin suburbs again the most active. Despite the proportionately greater contribution of municipal housing in Ireland, and Dublin in particular, conditions remained extremely poor in the tenements. Fatal collapses of tenement buildings in 1911 and most notably in 1913, together with an awareness of the role of housing in fuelling Labour unrest that would cumulate in the Lockout of 1913 led to an inquiry by the Irish Local Government Board (ILGB) which found that 14,000 houses were needed in Dublin. Daly (1984) surmises that “it would not be implausible to trace an interest in Dublin housing to the threat of socialism and the aftermath of the 1913 lockout”. The report also concluded that subsidy would be required to produce rents that could be afforded by those who needed the accommodation. It put this figure at 16 percent of the loan repayments, and made a series of other recommendations as to the type and location of housing. As ever, action on Irish housing would founder on the issue of subsidy. While the Clancy Act had conceded the principle of subsidy for urban housing, its extent had been severely curtailed by the British Treasury. The response to the ILGB report became caught up in the debate on the Home Rule Bill, and before the matters of who would pay for what could be resolved, war was imminent.

The Rising in 1916 was to prove more momentous for Ireland than the conflict on the continental mainland. Certainly, in the aftermath, the slums were identified as a key cause of urban discontent. It did not go unnoticed that the Rising was overwhelmingly urban, and as noted above, British attitudes to urban housing in Ireland changed markedly after the Rising. The first manifestation of this came in the discussions over the reconstruction of the city centre

after the disastrous effects of the insurrection, and as Fraser (1996) notes “from this point on the Castle Administration consciously employed housing as a political tool”. Inevitably, however, wartime financial constraints meant that any large-scale initiatives would have to wait for peacetime. The Liberal Government in the UK was prepared to concede further on the matter of central government subsidy as part of a Home Rule package, and it was widely recognised that action on housing was essential if political stability was to be maintained. While the British authorities were encouraging of efforts to improve housing conditions as part of the post-Rising reconstruction, Irish demands were for greater subsidy from the Exchequer. Wartime economic conditions meant that, except for a small loan to Waterford, no money was approved for Irish municipalities in 1916. Efforts on behalf of Dublin City Council to raise its own bond failed, and it would be unrest due to rising unemployment and a more benevolent attitude from the British government that eventually led to the Cowan Report in 1918 which recommended that a new Dublin Housing Board be set up to build 16,500 cottages on suburban locations, and to renovate 3,800 tenement buildings to modern standards. It is significant also that the remit of the Cowan Report for Dublin was significantly narrower in scope than the parallel Tudor-Walters Report in Great Britain which paved the way for the 1919 Town Planning Act, but was not extended to Ireland. That Act would lead to the system of State-supported “council” housing in Great Britain. In Ireland however, housing was just one issue to be resolved as part of a Home Rule settlement, and elements of the Cowan Report found their way into the housing recommendations of the Irish Convention, which was established to make recommendations for Irish self-government. As the Convention achieved nothing when it reported in 1918, its recommendations for 67,500 homes nationwide with a 50% subsidy, while wildly optimistic, were ultimately to come to naught. Increasingly, British policy became more autocratic with regard to Irish housing. The 1918 election proved disastrous for the Irish Parliamentary Party who were eclipsed by the much more militant and separatist Sinn Féin, who declared an independent Irish parliament (Dáil Éireann). Further, the rift was widening with Ulster Unionist opinion.

While all sides were seemingly agreed on need for housing in urban areas, it was 1919 before the Irish Housing Act was passed. The Act imposed on local authorities a duty to prepare a scheme to meet the housing requirements in their functional area, and provided for a subsidy from the Exchequer to meet those needs. That subsidy was subsequently set at around 25 shillings for every pound of rent collected (Fraser, 1996). The Act became immediately mired in controversy over whether the terms of the subsidy were more or less favourable than those

that pertained in Great Britain. It was strenuously opposed by Unionist and Irish Party interests, and there was a clear paradox facing the “independent” Dáil Éireann with regard to British subsidies for Irish housing.

Aalen (1987) describes the situation under the Irish Housing Act of 1919 compared to the British Town Planning and Housing Act of the same year (the Addison Act):

“Whereas in England under the 1919 Housing Act the liability of ratepayers was fixed and that of taxpayers indeterminate, in Ireland the position was reversed. The Treasury contribution was a yearly subsidy of 25s per 20s of rent actually collected, a superficially attractive arrangement. But prices unexpectedly rose steadily and prospective tenants from slum areas could not pay the level of rent necessary to avoid a heavy burden on the already high rates.”

The consequences were stark: by the end of 1921, only 800 homes had been built under the Act compared to 175,000 completed or in progress in England and Wales (Aalen, 1987).

To complete the picture of housing in Ireland prior to independence, it is necessary to consider the housing schemes for ex-servicemen that were put in place via the Irish Land (Provision for Sailors and Soldiers) Act 1919. In the face of the rise of Sinn Féin and growing political unrest and fears of social upheaval, the British government was concerned to make some provision for the many demobilised troops returning to Ireland. The terms of the Bill were such as to permit ex-servicemen acquire cottages and land on terms analogous to the Labourer’s Acts, or to pursue larger 10–12 acre holdings through the Land Commission and Congested Districts Board. The policy was designed to develop “colonies” of loyalist ex-servicemen throughout the country. However, amid the worsening political and economic situation, output was very low. Irish nationalists remained hostile to the idea, and progress had stalled by the time of independence. The new Provisional Government however, agreed to the establishment of the Irish Sailors’ and Soldiers’ Land Trust to complete the programme of just under 3,700 cottages on both sides of the new border, using British government finance. Yeates (2015) observes that:

“... the Sailors’ and Soldiers’ Land Trust made a very significant contribution to renewing [sic] the social housing stock of the country nationally between 1922 and 1928. While 4,128 new housing units were built

by the local authorities, of which 2,436 were in Dublin (60 per cent), the trust built 1,927, of which only 526 (27 per cent) were in Dublin city and county”.

3.5 Housing initiatives post-independence

At independence in 1922, the new Irish state found itself in a unique position as regards housing. As Fraser (1996) observes: “... within the context of Europe and America before 1914, it is clear that Ireland had by far the most socialised system of working-class housebuilding”. It was, of course, a feature that action on Irish housing was predominantly rural in nature (for the reasons set out above), but in urban terms too, Daly (1984) points out that Dublin Corporation had housed a greater proportion of its population than any other UK city – albeit that need remained extreme. Daly also points out that municipal and philanthropic efforts had contributed 18.75% of the city’s housing stock (adding DADC and Corporation output accounts for the overwhelming preponderance), but that those in greatest need were generally excluded.

The post-war housing and reconstruction efforts that took place in Great Britain were not paralleled in Ireland because of the unique political situation. The 1916 Rising, the Home Rule debate, the 1918 election and the onset of what would become the War of Independence, engulfed the issue. So Ireland, post-independence found itself facing a desperately urgent urban housing problem. However, if it no longer had the British Exchequer to stymie plans on grounds of parity and precedent for Britain, neither did it have anything like the economic might that its former colonial master could bring. The economy was even more dependent on agriculture, as the only part of the island with an industrial base was now severed into the new Northern Ireland statelet. While the impetus that the British Government had displayed to act on urban housing as counterweight to the nationalist threat had gone, the fear of socialist and labour unrest remained. As Foster (1988, 515) noted: “on both sides of the Treaty divide, the reaction of conservative rural nationalism was predictably hostile to the Labour renaissance”. Norris (2014) citing Powell (1992) notes that the incoming Irish Government was deeply conservative in outlook, despite many coming from a tradition of violent political struggle. Lyons (1973, 471) wryly observed “That the revolutionary of today is the conservative of tomorrow is a truism of politics in no way contradicted by the recent history of Ireland”, and Foster (1988, 519) also points out “Certainly the new regime believed in ‘strong’, not to say

ruthless, government. Any ideas of a social welfare utopia were rigorously dismissed: the old-age pension was actually cut by a shilling a week in 1924.” Perhaps, more fundamentally, the apparatus of government in terms of its administrative and legal structures remained almost perfectly intact. Foster (1988) notes that post-independence 98% of civil servants had served under the old regime, and more than 10 years later, that figure was 45%. The overwhelming preponderance of trade was with Great Britain, and economic orthodoxy was rigidly focused on delivering balanced budgets and in reality differed little from British policy, except insofar as it aspired to economic self-sufficiency. All of this was overseen by the hegemonic Department of Finance, through which everything passed.

The first initiative in the area of housing of the new State was the announcement of the “Million Pound Scheme” in 1922. This would produce about 2,000 homes between 1922 and 1924. It was based on a tripartite financing arrangement where local authorities placed a small levy on the rates, borrowed a further portion, and received a matching State subsidy for the balance. Fraser (1996) cites these as “effectively the first post-war municipal dwellings south of the border”. However, most of these dwellings were sold to owner-occupiers, mostly middle-class Dubliners (Aalen, 1992).

The politics of housing at this time are interesting. WT Cosgrave (the President of the Executive Council – effectively prime minister), could state in 1922 that “the housing problem, was, perhaps, the greatest, problem they had to tackle” (Irish Times, 5 May 1923). However, having won the 1923 election, attitudes changed markedly, and there was little place for housing in a new era of fiscal rectitude. By 1924, Cosgrave’s answer to the housing problem definitely did not lie with the local authorities. Yeates (2015) describes a speech to the Rotary Club in which Cosgrave set out a new direction for housing. He acknowledged that while housing was needed, “the difficulty in ... supplying the need was high cost of building and high rate of interest, and the unwillingness of many tenants to pay suitable rates”. Yeates observes:

“He dismissed previous experiments at providing local authority housing as ‘impracticable; instead he suggested that the way forward was encouraging private house-building ... But he made it clear that ‘it was not intended that local authorities should undertake building’. In a nod to the Labour Party and the ‘sympathetic hearing’ it had given the government’s Housing Bill in the Dáil he said that a ‘final opportunity’ might be afforded to local authorities to build houses ‘where no private individuals ... undertake the business,’ but

the ‘Government had come definitely to the conclusion that that there was only one real method of making this service a success and that was by giving private enterprise full and complete freedom’ The government would therefore contribute £100 towards the cost of a £500 house”.

Thus, despite the atmosphere of fiscal retrenchment, the 1924 Housing Act made grants available for the construction of houses, and later that year extended the grants to local authorities. However, introducing the Bill in the Dáil, Cosgrave said “This is an opportunity at any rate for private enterprise to show how much better it can do than local authorities have done.” (Dáil Debates, 24 January 1924, Vol, 6, No. 8, col. 560). A year later, the Government made grants available to public utility societies which were to contribute significantly to private housing development up to the 1960s (Norris, 2003, 2014). The 1924 Act also replaced the loan subsidies that characterised earlier housing supports with a system of grants, but local authorities could neither raise the loans required, nor develop housing at affordable rents (Norris, 2014). These subsidies were, however, for owner occupier housing rather than for renting to the poorer sections of the population. The subsidy could cover up to one-sixth of the cost of a house (Norris, 2014), and were supported further by government loans under the Small Dwellings Acquisitions Act. This paved the way for a uniquely Irish system of active government support and subsidy for owner-occupation that would endure for the next half-century. Local authority housing built at this time was similarly sold via tenant purchase or for cash (McManus, 2011).

Notwithstanding the significant progress that was made in rural housing under the Land Acts and the Labourers Acts, the new State reconstituted a Land Commission under the Land Act 1923 to distribute land to former tenants as small farmers. It achieved this through powers of compulsory acquisition and State-assisted purchase. Through this measure and amending provisions, a further 155,000 holdings had been transferred to tenants between 1923 and 1959, and the Land Commission had built 20,000 rural houses (Kenna, 2011). As Kenna observes, “the effect of the work of the Land Commission was to transfer almost half a million households into fee simple owners of land” (Kenna, 2011, 29). Thus, in its approach to property and housing issues, the new State had marked out for itself a clear preference in favour of owner occupation. Pfretzchner (1965) diagnoses a complete absence of ideology in Irish housing policy irrespective of the composition of the government. However, the fundamentally conservative outlook of the political establishment, the historical attachment to ownership that

derived from the centrality of the land issue in late nineteenth century Ireland, and the influence of Catholic social teaching were all part, in some proportions, of the reasons for this. The effect of the policy, however, was generally to favour better-off households, and very little was done for the urban poor. Certainly, the slum conditions in Dublin and other Irish cities remained as bad after independence as they were before. In 1936, the *Irish Press* ran a series of articles on slum conditions and estimated that 23% of the population of Dublin, some 109,000 persons lived in the tenements.

Slum clearance began in earnest in the 1930s. While it is easy to characterise this as a change brought about by a new Fianna Fáil government in 1932, in fact the Housing (Miscellaneous Provisions) Act 1931 had made the business of clearing slums easier for local authorities (Kenna, 2011). The Housing (Miscellaneous Provisions) Act of 1932 increased the subsidies available to local government. Housing output rose across all sectors in the 1930s, with local authority output peaking in 1935 when 6,734 dwellings were provided. In the decade to 1942, between urban and rural, private and local government, 82,000 dwellings were added to the housing stock. As of 31 March 1941, a total of almost 75,000 dwellings had been provided under the Act. Of these, 43,177 were provided by local authorities, 16,994 were provided by private individuals, and 14,274 by public utility societies (Dáil Debates, Vol. 85, No. 1, col. 650).

Approximately, 11,000 condemned houses were demolished in that decade (McManus, 2011) and by 1938, 7,400 new dwellings were provided for tenement families (Kearns, 1994). However, in 1939, the Minister for Local Government and Public Health, Sean T. O’Ceallagh, was complaining that fewer than half of the local authorities had made the survey returns of insanitary dwellings that would have enabled them to access State assistance for reconstruction (Dáil Debates, Vol. 75, No. 3, col. 348). By 1947, the Minister could report that 21,652 slum clearance houses had been built nationally under the 1932 Act. He also gave further figures that 20,770 labourer’s cottages had been built, and that “normal” municipal housing built under the Act numbered 10,466. The emphasis of housing policy therefore remained firmly focused on rural dwellings, and provision of housing for the “better off” urban dweller. That is not to say that progress was not made on slum clearance and the provision of housing for the poorest households, but as observed by Pfretzchner (1965), Irish Government policy on housing was completely pragmatic, “challenged by the unfulfilled demand from almost all segments of the population and they have attempted to meet that demand by direct action programs.” This

meant that support for private ownership, and a slant towards the provision of rural houses reflected the political realities of Irish life. Housing for the urban poor would be dealt with under the 1932 Act and slum clearance programme. O'Connell (1994) cited in Norris (2005) attributes this regime for the unique "shape" of social housing in Ireland, with the poorest households renting socially while homeownership was available to almost all other households.

The Fianna Fáil government also continued and enhanced the policies in support of owner-occupation however in 1935 there was a radical reform of the ability of local authorities to borrow money for onward lending to house-purchasers thereby easing a key blockage to supply. This led to local authorities being the main source of housing finance for private purchasers in the 1940s and 1950s (Daly, 1997). Land annuities that tenant purchasers paid under the Land Acts were reduced, and a year later in 1936, tenant purchase of labourers' cottages was introduced (Kenna, 2011).

Inevitably, the outbreak of war in Europe had an effect on housing output in Ireland, and the number of dwellings built with State assistance (public and private) fell from a high of 17,017 in the financial year 1940 to 1,765 in 1947. In the aftermath of the War, there was a chronic shortage of materials for housing across Europe and Ireland was no exception. In the Dáil in 1947, Sean McEntee, Minister for Local Government cited labour and material shortages as severe problems in housing supply. He also reported on 8 October of that year that it was estimated that 60,848 new dwellings were required (*Dáil Debates*, Vol. 108, No. 1, col. 54, 8 October, 1947). Output rose sharply after this and had reached a peak of 15,733 dwellings built with State assistance in 1953, in particular as a result of the Housing Acts of 1948, 1950 and 1952. A White Paper on Housing was produced in 1948. It estimated that the number of new dwellings needed was 61,000, of which 23,500 were needed in Dublin. It set a target of producing 100,000 houses in the following ten years: 60,000 by local authorities and 40,000 by private developers. The Housing (Amendment) Act 1948 began the post-war housing drive (Meghen, 1965). It increased the grants, and empowered the Minister to make regulations for the management and letting of local authority housing. This perhaps marks an important step in the centralising of housing matters that had previously been much more in the purview of the local councils. It set the interest rate for loans under the Small Dwellings Acquisitions Act at 50 basis points above the local authority borrowing rate, further incentivising homeownership. The Acts of 1950 and 1952 further increased the grants available and widened the cohorts of households that could be accommodated.

In the decade 1947–1957, Dublin Corporation provided 15,822 units of accommodation, mostly houses on the periphery of the city. This led to calls for more city-centre flat complex development, but overcrowding was such that the Corporation had to “thin out” the population of the city centre slums before flat development became feasible, which it did in 1956 (Meghen, 1965). For most of the 1950s, more than 50% of all housing built in Dublin was completed by local authorities (McManus, 2011). In 1958, it was found that based on the 1948 assessments, 23 County Health Districts and 42 urban districts had met their housing need and for the first time in the Dublin Corporation area, the number of vacancies exceeded the number of completions (Meghen, 1965). Thus, at the end of the 1950s, huge efforts had been made to meet the country’s housing needs. Almost 53,000 dwellings were built, and contrary to expectations, private sector housing activity also expanded sharply, largely driven by the ever more generous subsidies offered by the State. Meagher (1954) observes that 95% of Irish houses received State subsidies in 1953 compared to 80–85% in Britain, France, and Scandinavia.

3.6 The 1960s and Rent Policy

Capital expenditure on housing obviously increased dramatically, and by the time of the 1964 White Paper on housing, it was estimated that £225 million had been spent since 1948. However, only 15% of total capital was provided from private sources (Kenna, 2011). Pfretzchner (1965) opines that scarcity of capital in Ireland was a large part of the reason for high input of public funds (though he puts the ratio at 3:1). He also offers a fascinating insight into the financing of housing at this time in Ireland. The overwhelming preponderance of loans came via local authorities, who in turn sourced their finance from the Local Loans Fund, which itself was funded by a National Loan (government bond). Though banks did invest in the National Loan, their role in the housing development business was largely as funders of builders and developers not homebuyers. The development business for private sale was dominated by “agents” who sourced land, broke it into lots, and sold it on to smaller developers. This has remained a persistent feature of the housing market in Ireland which lacks specialist, large house builders. As regards public housing, in the early-mid 1960s, the State paid up to two thirds of the loan costs if the housing development was for slum clearance and one third if for other purposes. Pfretzchner estimated that half of the cost of a unit of public housing was paid by the State, and the other half by the tenant and ratepayer) estimating that 98% of all housing constructed in Ireland between 1950 and 1965 was subsidised.

The White Paper of 1964 proposed that while rents would be charged according to the household income, those who could afford it would pay a maximum rent which would be the economic cost of providing the dwelling. By the mid-1960s, the Minister for Local Government had encouraged local authorities to move to differential rent systems. Pfretzchner (1965) notes that some local authorities were operating such schemes, but that probably a third of the tenants were paying a fixed or variable rent that bore no relation to the cost of providing the unit because they were never revised. A senior Department official (Meagher, 1959) saw differential rents as a better system because the “long term upward trend” of incomes would be better than a fixed rent that was never revised, for political reasons. Pfretzchner (1965, 76) gives the example of Bray Town Council:

“Bray has not adopted a variable rent scheme and in all likelihood without external compulsion will never do so. Approximately 40% of the town population lives in council-provided houses, and despite a token increase of 3d per room in 1960, it is judged that any attempt at an across the board graded rent system increase would result in devastating political consequences”.

In 1963, 46.4% of Dublin Corporation tenants were on fixed rents with the balance on differential rents at one-sixth of income. However, the rent scale was fixed in 1950, and construction costs doubled between 1950 and 1963, again widening the gap between the cost of provision of the dwelling and the income that could be received under differential rent.

The Housing Act of 1966 provided for “differential” rents regulated by the Minister for the first time. Such rents are related to income rather than to the quality, location, or size of the dwelling in question. The differential rent regime was first introduced in Cork City as early as 1934 based on one-sixth of household income (Meagher, 1954), and was applied unevenly across the country from that date. From 1967, all new social lettings were on differential rents. The Act provided for ministerial oversight of the rent regime and ushered in differential rents across the country the following year. However, this met with stiff resistance from tenants, with street protests, and vigorous political campaigning to have the maximum rent reduced. This culminated in an umbrella group of tenant organisations, the National Association of Tenant Organisations (NATO), leading a rent strike in 1972 that would last 15 months and become enmeshed in the 1973 General Election campaign. The political pressure exerted by NATO led to commitments from the subsequent winners of the election, Fine Gael and Labour,

to substantially reform rents and importantly tenant purchase provisions (dealt with below). After the election in 1973, a new national differential rent scheme was introduced under which rents were about 20% lower. Under this scheme, rents were set annually according to a formula set by the Minister (Blackwell, 1988), but the link of maximum rent to economic cost of provision was lost.

Blackwell (1988) explains that in the original conception of differential rent as envisaged around the time of the 1966 Act, the maximum rent would be related to the cost of providing the unit at current prices, with certain adjustments for older dwellings. The post-1973 regime ended up with a definition of maximum rent as a fixed 5.25% of the all-in cost indexed to CPI. However, the Department also capped the permissible increase that would result from the formula, so as Blackwell observes there is no necessary relation between maximum rents and economic rents.

The 1966 Act in forecasting a need for 12,000–14,000 houses per annum provided the initiative to encourage new building methods and created an increased role for the National Building Agency (NBA) in local authority house-building. The NBA was a new agency established to ensure that the land and building needs of Ireland's new industries were met. It would also oversee the development of the massive social housing project that would see over 3,000 social housing units provided at Ballymun in Dublin (Kenna, 2011). Arguably, the 1966 Act represented a significant, modernising milestone in Irish housing provision. Aside from the provisions already mentioned, it consolidated much of the housing code in one statute and abolished the rural/urban distinction that had characterised the system since its foundation over a century before. It remains effectively the founding statute of the social housing code that is still in operation. Among the other important effects of the Act that currently resonate are the extension of tenant purchase rights to urban dwellers, and to require local authorities to assess, provide and allocate dwellings in their functional area in a prescribed manner (Norris, 2005).

Modernising the legislative code did not improve supply. Demand for housing based on 1967 estimates was 59,000 units, of which 35,000 were required to replace unfit dwellings (Kenna, 2011). The next housing White Paper in 1969 reported that 57,000 houses were produced since 1964 and 47,000 reconstructed. However, the pressure for more housing remained as intractable as ever. In an interview with RTE in 1966, Jim Larkin Jnr, the chairman of the Corporation Housing Committee said that housing conditions in the city had improved from the chronic overcrowding that had pertained, but blamed delays in getting approvals and lack

of finance, especially cuts to capital budgets that would not only curtail local authority output, but also reduced the funds available for households to purchase privately. In the face of this new chronic shortage, the Dublin Housing Action Campaign was founded to agitate for a response to the crisis. O’Connell (2007) attributes the new role for the National Building Agency to official nervousness and concern about the capacity of the State to deliver in the traditional way (via the local authorities).

3.7 The 1970s and 1980s: Tenant Purchase and Residualisation

The 1969 White Paper, *Housing in the ‘70s* explicitly pursued home ownership as the preferred tenure to social housing. O’Connell (2005) points out official concern that the grant and subsidy scheme that existed was not sufficiently attractive to achieve the objectives of the policy which was to “help persons who would otherwise have to seek a local authority house to provide houses for themselves” (Department of Local Government, 1969). The increase in support for owner-occupiers in the early 1970s, through widening of credit by building societies, and tenant purchase schemes further enhanced the numbers of private households in the country. O’Connell (2005) points out that while 93,000 council houses were built between 1973 and 1987, a total of 67,200 were sold by local authorities. However social housing output also continued to rise up to the middle of the 1970s before falling back somewhat, and representing around a third of all housing built in the State. But the rate of increase in private housing output meant that the overall proportion of households renting socially began to fall. Coupled with more generous tenant purchase schemes, both Norris (2005), Kenna (2011), and Hayden (2014) attribute this to the beginning of the residualisation of social housing. Kenna (2011) points to a NESC report in 1977 which found that subsidies to owner-occupiers were *greater* than those available to the social rented sector, while Hayden (2014) refers to a subsequent ESRI study that showed substantial underestimates in the NESC figures as subsidies for home-owners were even higher.

Hayden (2014) goes on to illustrate a further “auction” of favourable tenant purchase scheme terms by political parties in the general election of 1977, this time resulting in a Fianna Fáil victory. Thus, clawback provisions restricting sale of tenant-purchased dwellings were abolished. Significantly, this election also led to the abolition of domestic rates in 1977, which removed completely the potential for local authority action on housing construction, as they were now dependent on the rates support grant. The previous government had also decided to fund centrally the full cost of the loan charges local authorities incurred for housing purposes.

With the low rent base, no domestic rates, and the government paying the full cost of loan charges, the local authority role in the provision of housing had altered radically. Moreover, as the split on sale of a council house went 60:40 between the municipality and the Exchequer, tenant purchase suited both sides, especially as the economy began to decline in the 1980s.

Although the volume of social housing output in the 1970s remained high, its quality remained dubious. The poor design standards and lack of regard to planning, facilities, and amenities that was referred to by Pfretzchner in his 1965 analysis continued. Indeed, the very innovation that was aspired to in the 1969 White Paper in terms of modern methods of construction led to many pre-cast and system-built structures that would come to be regarded as sub-standard. Certainly, the combination of poorly designed, badly serviced housing estates in the suburbs of major cities assisted the poor perception of social housing. While large-scale residualisation of social housing would not take place until the 1980s and onwards, nonetheless, with the generosity of subsidies available for owner-occupation, it was inevitably poorer households who became the tenants of the new estates. Additionally, the generosity of the tenant purchase schemes meant that households who had the wherewithal could buy out their property, further residualising the social rented sector. Because of the differential rent system, they were also by definition paying low rents, thus further weakening the revenue stream into local authorities from housing. Furthermore, as acknowledged by Hayden (2014) the rights of successor tenants (i.e. family members) were seen as inviolable with impact on available supply. Thus, a social tenancy at this time had a series of characteristics that made it both uneconomic and unattractive to the local authority landlord to maintain as the rent was well below market, a tenant could buy the property on very attractive terms with 60% of the sale price reverting to the local authority and the tenancy was in effect heritable.

Another tenant purchase scheme was set in motion in 1980, again based on the construction cost of the unit rather than the market value or replacement cost (Hayden, 2014). In 1984, a new government introduced the “Surrender Grant”, a £5,000 payment to households who gave up their social tenancy to purchase a unit in the market. The objectives were to stimulate the construction industry and to release social housing to those most in need. However, as many working and economically able households left the social housing estates, they became even further residualised as the incoming tenants were poorer, and a “disproportionate number with histories of alcoholism, mental illness or substance abuse” (Hayden, 2014, citing Threshold, 1987). Blackwell (1988) notes that social housing became more available from 1985–1987,

especially in low-demand areas. This was due to the effects of the surrender grant and the high level of house completions by local authorities. In a particularly lucid analysis, Blackwell (1988) sets out the reasons why these heavily residualised “difficult-to-let” neighbourhoods emerged:”

1. Due to the incentives for owner-occupation and a declining private rented sector, social housing was catering for the very poorest households.
2. As more economically able households either moved out or were moved to “better” Council estates, the sector became more stratified.
3. Poor build quality, low-rent policies meant little maintenance or renewal.
4. Poor management of the maintenance system.
5. Clearance programmes meant that many of the same slum-dwellers were decanted to new housing developments in the suburbs with the same attendant concentrations of poverty and vulnerability.
6. The recession devastated the employment base of many local authority areas.
7. The use of “sink estates” by housing administrators as “deterrent” neighbourhoods.

In 1988, yet another tenant purchase scheme was launched. The extraordinarily generous terms of this scheme would lead to 45 per cent of eligible households – over 40,500 applying to buy their homes. With discounts of at least 40% and additional grants available, the scheme radically altered social housing in Ireland (Hayden, 2014). In the Dublin Corporation area, it was estimated that the average discount from market value offered to tenants were as high as 65% in 1992.

3.8 Contemporary housing perspectives

The 1988 Housing Act provided for local authorities to prepare regular assessments of social housing need in their area, schemes of letting priorities, and introduced for the first time provisions for homeless households and travellers. From the point of view of the present discussion on financing social housing, the principal provision to note is in s.5 where powers to support and fund approved housing bodies were conferred on housing authorities. Though this did not have any great effect at the time in terms of general purposes housing, s.10 provided for supports to be provided by approved bodies for the provision of accommodation for

homeless persons. However, the housing situation at the end of 1980s was relatively benign, social housing waiting lists had fallen from 30,000 in 1982 to 17,770 in 1989 and house prices were rising at a sustainable rate (Norris and Winston, 2002).

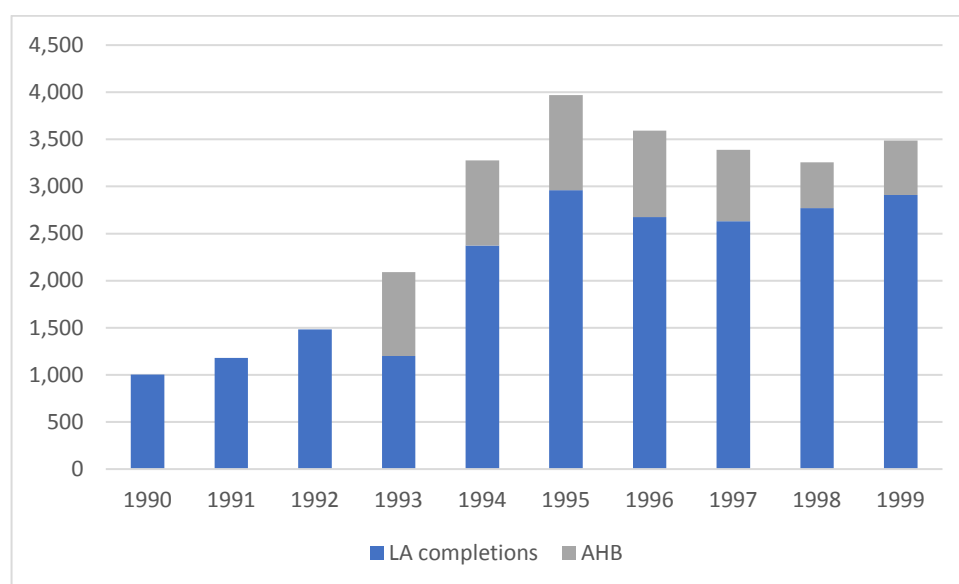
A new White Paper on Housing, *A Plan for Social Housing* was produced in 1991. The document endorsed further supports for low-income households to access home ownership, and signalled a new role for the voluntary and co-operative sector. Importantly however, it took a holistic view of the overall housing landscape for low-income households rather than merely attempting to set a target number of social housing units required. It signalled a change in the role of the local authority to become more strategic in nature, rather than being simply providers, “it will also require of local authorities a new facilitating and promotional role aimed at improving and speeding up access to housing” (Department of the Environment, 1991). *A Plan for Social Housing* also marks the beginning of a change in strategy towards smaller more integrated developments, and away from large, socially segregated housing estates. A second housing policy statement emerged in 1995 called *Social Housing – The Way Ahead* (Department of the Environment, 1995). This largely reinforced the message that provision via the voluntary sector would be an important channel of supply. Its other novelty was its recognition of the role of all tenures in meeting housing demand – importantly including the private rented sector.

As to the evolution of the voluntary sector, Brooke (2001) notes that some small, locally based, and usually religious-founded housing associations were founded in the latter half of the twentieth century, usually catering for elderly, or special-needs households. Geoghegan (1983) notes the existence of about 75 housing associations in the early 1980s holding around 2,000 dwellings. The Housing (Miscellaneous Provisions) Act 1970 made provision for grants to bodies representing or promoting voluntary and co-operative housing (Kenna, 2006). In 1984, the first scheme targeted specifically at housing associations was introduced, the Capital Assistance Scheme (CAS), also for special needs housing. However, *A Plan for Social Housing* provided for a 100% capital grant to approved housing bodies which marked effectively the beginning of general needs housing in Ireland provided by housing associations. This was the Rental Subsidy Scheme. The reasons for this policy shift towards Approved Housing Bodies is not explicit. Brooke and Clayton (2005) observe that it was not born of any perceptible ideological view, but rather as a pragmatic reaction to poor housing management practices in the local authorities. That Rental Subsidy Scheme changed over time and morphed into the

Capital Loan and Subsidy Scheme (CLSS) which provided a non-repayable loan to the housing association covering 100% of the capital cost and a subsidy for management and maintenance. The Housing Finance Agency (HFA), established in 1981, extended loans to local authorities under the approval of the Department of the Environment, who in turn recouped the cost of the loan repayments from the local authorities. Brooke and Clayton (2005) cited the “byzantine” financial arrangements, together with the close scrutiny of every aspect of projects as the cause of undue delays and complexity in project delivery. Between 1996 and the end of the decade, over 4,500 units had been provided between the CAS and CLSS schemes, making a significant contribution to overall social housing from the non-State sector for the first time in the history of the State. The sector had tripled in sized between 1990 and 2002 (Mullins, Rhodes and Williamson, 2003).

The economic climate in Ireland improved dramatically throughout the 1990s, and this, together with inward migration placed additional demands on housing across all sectors. Moreover, the absolute rise in social house completions throughout the decade belied the fact that total output at 21,187 (Figure 3.1) units was just over half the number that was produced in the 1980s (Norris and Winston, 2002).

Figure 3.1 Social housing completions 1990s



The latter part of the decade was characterised by rising house prices and supply constraints that threatened the strong economic growth that was by then well established. Government action around this time was strongly focused on housing, and on foot of a series of reports commissioned from economist Peter Bacon, a programme of action was put in place from 1998

to increase housing supply by reducing impediments via taxation, planning, and other measures. It should be stated these measures were largely focused on general market housing supply, as distinct from social and affordable housing, which was the subject of a parallel programme.

By the turn of the Millennium, the Irish economy was growing strongly, house prices were rising dramatically, and the country was in the midst of an economic boom that would see housing output rise dramatically. However, affordability problems remained. NESC (2004) analysed the housing boom, and in terms of social housing noted that the contraction in social housing production in the previous decade contributed to the problems of affordability and access. It noted that this led to a greater use of rent supplement, the requirement for additional social housing and the creation of affordable housing schemes. The National Development Plan 2000-2006 explicitly recognised that “the market alone will not address the housing needs of all sections of the population.” Accordingly, it proposed to provide an additional 35,500 units of local authority housing in that period, together with 4,000 AHB dwellings per annum. It also sought the regeneration and refurbishment of some older Council housing.

The Planning and Development Act 2000 introduced, in Part V, a new form of planning gain in the form of social and affordable housing to be provided based on the “existing use” value of the land. Thus, additional new housing stock was provided by developers to local authorities and housing associations. The Act was amended in 2002 to widen the range of options available to developers to fulfil their Part V obligations. However, from the time of its inception until 2011, the measure produced under 4% of all housing delivery in that period, and 62% of that quantum was affordable rather than social housing. Including the value of cash contributions, the total potential value of Part V amounted to 4.8% of output. The measure was however, successful in introducing mixed tenure and implementing sustainable development principles in developments throughout the period (DKM, 2012). While NESC (2004) had specifically pointed out that affordable renting – the creation of an intermediate tenure between social housing and the market – should be explored, *Delivering Homes, Sustaining Communities* (DEHLG, 2007) only alluded in a vague way to examining it as a possibility. Thus, affordable housing in Ireland inevitably meant owner-occupier housing purchased at a reduced price, usually via Part V.

Affordability problems in the private market and the lack of social housing led to a rise in those renting in the private sector with state support via Rent Supplement. Rent supplement is a

demand-side payment to tenants to subsidise their rents in the private sector. Originally conceived as short-term payment to assist households during short periods of unemployment or while waiting for social housing allocation, the payment developed into a long-term housing support mechanism. The lack of social housing charted above was the primary reason for this. However, the payment was problematic as it prohibited full-time work, and was beleaguered with irregularities. As early as 1999, the Government was considering moving the system into local authorities where it would reside with the rest of the housing support system (Department of the Environment and Local Government, 1999). O’Sullivan (2004) notes a doubling of households in receipt of the payment in the decade to 2003 (from 30,000 to 60,000) observing that: “Unlike other countries, this increased dependence on demand-side subsidies came about not because of a deliberate policy decision; rather it emerged in a somewhat ad hoc fashion”. The onset of the economic downturn led to a rapid rise in demand for rent supplement. From a low point of 59,726 recipients in 2007, by 2010, 97,260 rent supplement payments were being made before the number began to fall back to 66,409 in 2014 (Department of Social Protection, 2015).

The Private Residential Tenancies Act 2004 significantly reformed the private rented sector in Ireland. It introduced compulsory registration of tenancies, a standard four-year tenancy, confined rent increases to one per annum and only to market rent, and it provided for a system of dispute resolution. This new system would be administered by a new agency, the Private Residential Tenancies Board. The private rented sector in Ireland had very informal regulation since the striking down of rent control measures in the early 1980s. Norris (2014a) characterises the sector in the mid-twentieth century as very unevenly regulated, and describes a pattern of increasing regulation and subsidisation for the sector from the 1970s to which she attributes its expansion. However, Norris concludes that “the Irish private rented sector is still not an attractive long-term accommodation option for many households or long-term investment option or landlords”. Galligan (2005, 118) characterises the changes: “The Victorian basis for governance of the private rented sector has finally been replaced by a system of administration that seeks to balance the interests of government landlords and tenants in a modern policy framework”.

The proportion of households renting privately rose dramatically in the period between 2006 and 2011 (Figure 3.2) to the point where 18.5% of people rented their accommodation privately (Census, 2011). While the proportion of social renters remained relatively static (at c.10%), the

overall size of the private rented sector increased to its highest level in decades (Figure 3.3). Sirr (2014) attributes this shift to an attitudinal change to renting due to changing work patterns, lifestyle choices, and the property collapse which altered perceptions towards home-ownership as the default housing choice.

Figure 3.2 Tenure change 2006–2011 (source: CSO, 2011)

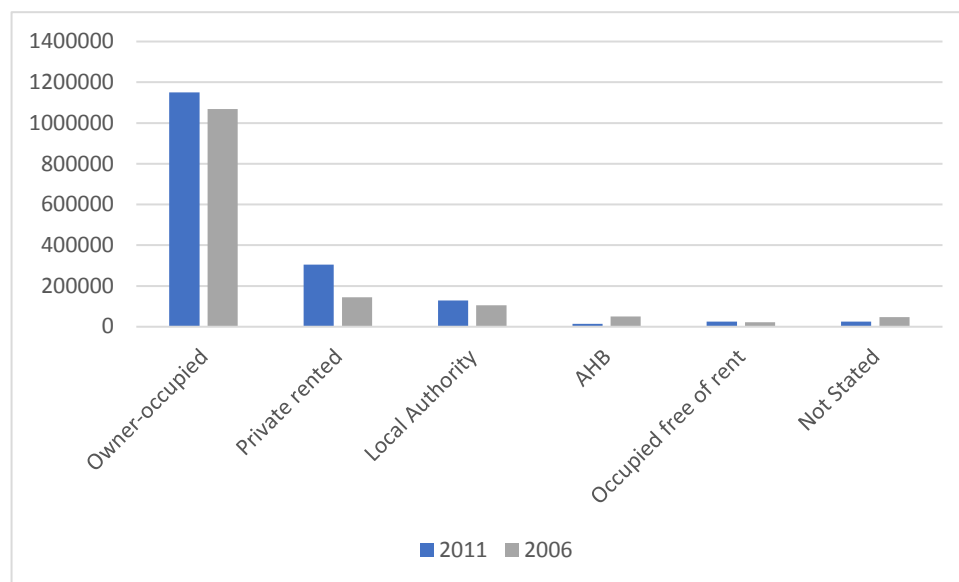
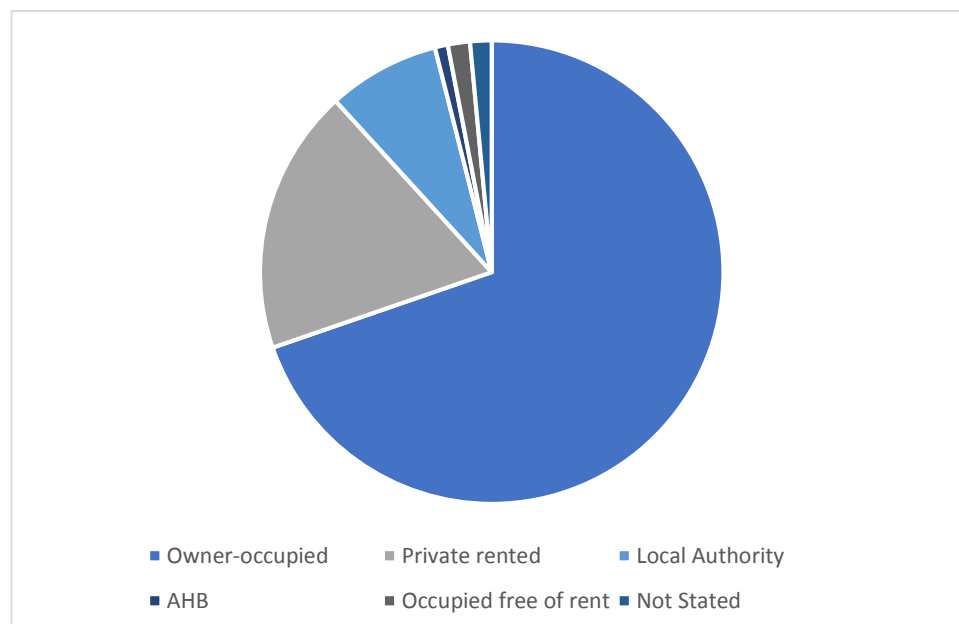


Figure 3.3 Tenure composition 2011 (source: CSO, 2011)



In 2005, the Government published a short policy statement entitled, *Housing Policy Framework – Building Sustainable Communities*. This document was committed to high levels

of output in the private sector. Its principal novelties in terms of social housing was to commit to the Rental Accommodation Scheme (RAS), under which long-term rent supplement tenants were transferred to the local authority system where they were housed in private sector tenancies, but with greater security and with the employment restrictions that operated under rent supplement removed. This marked a significant departure in social housing provision. Local authorities were now *de facto* availing of the private rented sector to meet housing needs. Strictly, these were not social tenancies, and those households in RAS remained on the social housing waiting list. This measure signalled a new direction of travel in low-income housing provision, but also further reflected a move towards mixed tenure, where social housing candidates were housed in private developments with the direct support of the local authority.

In 2007, a more substantial policy document was produced. *Delivering Homes, Sustaining Communities* continued long-standing Government policy of encouraging home-ownership, but now emphasised choice in the provision of housing to those who could not afford to house themselves in the market (DEHLG, 2007). The policy aspires to a life-cycle approach, and talks about rights and responsibilities in tenancy terms, together with a fair and equitable approach to rents and allocation schemes and seeks a more attractive private rental sector with new methods of assessing social housing need. Taken in the round, the policy document may be seen as a wry attempt to signal quite a radical change in social housing policy, where “life cycle” approaches and equitable rents mean changing lifelong tenancies at submarket rents even where households could afford more, and where “tenant purchase reform” means sale on more economic terms. The policy document also continues the emphasis on sustainable communities’ principles, which was reflected in ongoing commitment to Part V and to the RAS scheme together with commitments to regeneration and to mixed tenure approaches to new housing developments.

The legislative response to the 2007 policy document was the Housing (Miscellaneous Provisions) Act 2009. Despite its unpropitious title, the Housing (Miscellaneous Provisions) Act 2009 represents the most radical step in Irish social housing since the first municipal houses were provided in the nineteenth century. In s.19 of the Act, Ireland switched from using the term “social housing” to “social housing support” which embraced state-supported tenancies in the private sector. While there are unquestionably more profound meanings in this change, it does not contradict the Haffner et al (2009, 2010) definition, as discussed in Chapter 1, as access to the means of securing the accommodation is on the basis of need. Hence, within those

terms, social housing support is a form of social housing similar to the German or US system of low-income housing provision (Chapter 5) which are largely based on tenancies that are identical in terms to private tenancies, but where access and allocation is on the basis of need.

The Act introduces the concept of “social housing support” as distinct from “social housing” simpliciter. Together with copper-fastening of rental accommodation availability agreements, and provisions that defined leasing as a form of social housing support, this had the effect of making privately provided accommodation a form of social housing, via leasing arrangements and the RAS scheme which was given a firm statutory underpinning. The Act redefines what is meant by social housing. Speaking in the Dáil, the then minister, Michael Finneran referred to:

“the creation of a flexible and graduated system of housing supports for those in need of housing. It sets out a framework to allow for the delivery of these services in a way that meets individual needs, but respects the concept of developing sustainable communities.” (Dáil Debates, Vol. 681, No. 3, col. 569, 30 April 2009).

As Kenna (2011) writes:

“The traditional concept of social housing, involving local authority rented houses has now been replaced by a new term “social housing support” enshrined in the Housing (Miscellaneous Provisions) Act of 2009. This encompasses the variety of housing arrangements made by local authorities, as well as new subsidised purchase arrangements and new leasing scheme where local authorities enter into long leases with landlords/developers and rehouse eligible applicants through a new “Chapter 4” tenancy. It is anticipated that these new arrangements will replace all new local authority housing from 2010, as capital allocations are curbed and the large overhang of unsold properties, many owned by developers and banks controlled by NAMA, will be used to house people on low incomes”.

The Chapter 4 tenancy referred to is a tripartite arrangement where a private tenancy exists between a landlord and tenant, but an availability agreement is made between the landlord and the local authority. The local authority pays the landlord, and the tenant pays the local authority a differential rent (Housing (Miscellaneous Provisions) Act 2009, ss. 23–27).

In 2009, the Government launched a new Social Housing Leasing Initiative where landlords could lease their properties to a local authority or an approved housing body on terms ranging from one to 20 years. The initiative effectively offered two schemes to landlords. In the first, properties could be leased long-term (for periods between 10 and 20 years) and the lessee local authority or AHB would assume responsibility for routine maintenance, keeping the unit tenanted, and collecting rent. In the second scheme, a landlord would provide property on an availability agreement basis. This reflects the arrangement where a landlord-tenant relationship exists between the property owner and the end tenant, as distinct from the leasing arrangement where the owner's relationship was with the local authority or the AHB. Reflecting the risks and responsibilities involved, the availability agreement structure paid approximately 92% of market rent while the long-term leasing carried a payment of approximately 80% of market.

Critically, it needs to be remembered that in the period between the publication of *Delivering Homes, Sustaining Communities*, and the 2009 Act, Ireland's economic circumstances had gone into a sharp reverse. The long period of growth that had begun in the mid-1990s came to a spectacular end that would result in one of the world's greatest property market collapses, and cause one of Europe's sharpest economic contractions. As the country's finances became increasingly unsustainable, huge cuts were made to capital budgets. The leasing initiative was an attempt to avail of plentiful vacant property for social housing using revenue funding rather than capital sources. The economic contraction would result in an EU/IMF programme for Ireland that would impose even more stringent fiscal measures on the country from 2010. Social housing production collapsed, as capital budgets were cut from €1.515.5bn in 2008 to €18.5 in 2011, and they would fall further (DPER, 2011).

The Department of Public Expenditure and Reform (DPER) conducted a review of social housing supports in 2011, and provide a useful summary table of reforms (Table 3.1).

Table 3.1 Changes to structure of social housing (source DPER, 2011)

Year	Measure
2004	Rental Accommodation Scheme – introduced with the purpose (i) eliminating long-term dependence on the Supplementary Welfare Allowance rent supplementation scheme [sic] and (ii) enhancing local authority response to long-term housing need. The Scheme has involved local authorities taking over responsibility from the former health boards for the accommodation of households in receipt of Rent Supplement continuously for a minimum of eighteen months.
Feb 2009	A reorientation of housing policy from construction to acquisition and leasing with the introduction of the Social Housing Leasing Initiative. The new leasing programme has allowed for reduction in capital allocation
2009	Local authorities begin to utilise unsold affordable housing for social housing purposes.
2009	The administrative functions of the Rent Tribunal were transferred to the Private Rented Tenancies Board.
2009	<i>Housing (Miscellaneous Provisions) Act 2009</i> – The Act provides for the making housing services plans and new provisions on the assessment of social housing needs and updating housing authority management and control powers, including the adoption of anti-social behaviour strategies. It also broadens the choices available to those seeking social housing by providing a more developed legislative basis for the Rental Accommodation Scheme and by expanding paths to home ownership through the new incremental purchase scheme.
2010	Incremental Purchase Scheme became operational. It will replace the existing Tenant Purchase Scheme in 2012
2010	Housing Finance Agency put a facility in place to allow for direct lending to approved housing bodies.
2010	The <u>Housing and Sustainable Communities (HSCA)</u> was established and is operating on an administrative basis pending legislation establishing it on a statutory footing. It rationalises the functions of the National Building Agency (NBA), the Affordable Homes Partnership (AHP) and the Centre for Housing Research (CHR). The AHB and the CHR have been closed down and the NBA is in the process of being wound up.
2011	The <u>Limerick Northside and Southside Regeneration Agencies</u> are being serviced by a single executive, and resources freed up through this will be reassigned to deliver the Phase 1 implementation plans for Limerick Regeneration. The Agency will be re-integrated into the new Limerick Local Authority by 2014.

The Housing Policy Statement of 2011 is seen as a coherent work programme for the development of housing policy over the short to medium term. The principal innovations of

the Statement were a commitment to a tenure-neutral approach by the Irish Government, thus ending a commitment to supporting home ownership that went back to the foundation of the State. The Statement also identified the AHB sector as the main channel of delivery for social housing and stood down the subsidised-purchase “affordable housing” schemes committing the remaining capital budget to regeneration, special needs and accommodation for homeless households.

Hence there has been a gradual process of reform where social housing provision moved from being the sole preserve of local authorities to involving approved housing bodies, and the use of private sector properties to deliver. This reform was also characterised by the adoption of mixed tenure, sustainable communities’ principles, and an increased emphasis on management, which had often been a weakness in local authority housing. The improved regulation in the private rented sector and general improvement in the volume of the housing stock that emerged from the building boom meant that Ireland had a very high proportion of new properties. However, the economic crash of 2008–2010 engulfed the process of reform and demanded new responses. In particular, six policy initiatives are critical to social housing sector and set the underpinning framework for low-income housing provision into the future namely:

- (a) establishment of the National Asset Residential Property Service (NARPS);
- (b) Housing Assistance Payment (HAP);
- (c) Residential Tenancies Bill;
- (d) regulation of the Approved Housing Body sector;
- (e) Social Housing Strategy;
- (f) Rebuilding Ireland.

The first of these, namely The National Asset Management Agency (NAMA), was established by statute in 2009 as a “Bad Bank” to take on the very significant debts largely associated with the property crash and to manage the assets in such a way as to maximise the return to the State. There was much talk in political and media circles about the NAMA “social dividend”. However, despite a reference in s.1 on the purpose of the NAMA *Act* as “to contribute to the social and economic development of the State”, nothing in the purposes, functions, or powers of NAMA as described in ss.10–12 of the Act bestow any social function on the Agency. However, in response to widespread demands that NAMA make assets available for social housing, the agency established National Asset Residential Property Services Ltd (NARPS) in

2012 as a vehicle which leases residential property to AHBs or to local authorities. NAMA also facilitates the sale of suitable properties from receivers to AHBs or to local authorities. It is envisaged that 2,000 social units will be provided from NAMA into social housing. Of these, NARPS will hold approximately 1,300 and 700 will represent disposals from receivers to social housing providers. Of the NARPS properties, approximately 1,200 will be leased to AHBs and the balance to local authorities (source: interview with Felix McKenna, Senior Asset Manager, NAMA). NARPS is included for the purposes of the present discussion as a significant player in Irish social housing.

Second, the Housing Assistance Payment (HAP) was introduced by the Housing (Miscellaneous Provisions) Act 2014 and represents a significant innovation in Irish social housing provision. There are a number of specific characteristics of the payment that mark it out as novel. First, the tenant can source a property in the private rented sector, and subject to HAP limits, can enter into a tenancy with the landlord. The tenant can also make a top-up payment to the landlord. The payment of HAP is made direct to the landlord, and the tenant will pay a differential rent to the local authority. The most significant step with HAP is that it is regarded as a form of social housing support under the Housing (Miscellaneous Provisions) Act 2009. The payment is in its early phases, but theoretically a HAP tenant is in the social housing system, and should be able to move through that system through transfers. Any employment traps that exist under rent supplement should be removed. However, from a downside perspective, a HAP tenancy is ultimately private and therefore does not enjoy the permanence of a local authority or AHB tenancy. Also, strictly, with HAP the State is supporting a class of tenant who never enjoyed housing support before. There are therefore risks that ending the employment trap in rent supplement could create an employer subsidy in that working households come to rely on HAP to meet their accommodation needs. Further, if HAP becomes a demand-led scheme as rent supplement is, then the State could find itself with spiralling costs that are difficult to control. On the other hand, if HAP is not demand-led then it cannot fulfil its potential either as an activation measure or as a better accommodation option for households in need. The interim position appears to be that the HAP budget is capped, and by implication, some households may continue to rely on rent supplement, or at least have to wait for HAP. This matter awaits resolution. HAP is a radical new option in the provision of housing. While it offers the potential for a household to take a job that they could not otherwise do, and to source their own property in an area of their choice, if the system is not fully integrated with the wider social housing system, it could lead to a more stratified and unequal

housing environment. However, as a new form of social housing support, HAP marks an important step in social housing provision.

Third, the Residential Tenancies Bill 2015 brings approved housing body tenancies under the ambit of the Private Residential Tenancies Board (renamed as the Residential Tenancies Board). This will mean that private and AHB tenancies will be subject to the same protections (although it is hard to see AHB tenancies being subject to the same insecurities as private tenancies). This might be seen as the regulation on the “consumer” side, while formal regulation of the sector on the “producer” side will take place under the auspices of a new Regulation Office that will oversee the governance and financial regulation of the sector. The purpose of regulation is to build capacity in the sector so that it can access private finance, and develop new and more sophisticated methods of provision (DECLG, 2013).

The fourth policy initiative concerns that regulation of the Approved Housing Body sector which hitherto was relatively unregulated. Having gained “approved” status from the Department of the Environment, housing associations were by and large “regulated” via appraisal processes for scheme proposals, and with limited local government oversight through management agreements. Though voluntary in nature, regulation is intended to be put on a statutory footing in 2016, and a “shadow” system is in place pending legislation under the auspices of the Housing Agency and working under an interim regulatory committee. The approach to regulation reflects the nature of the sector in Ireland which is very fragmented and is characterised by a large number of small community- or parish-based organisation with a very small number of units, and a few large (by Irish standards) associations with several thousand units. Regulation is therefore applied in three “tiers” where Tier 1 are small organisations without development plans, and Tier 3 are larger organisation with ambitions to expand and develop. As at end 2014, 194 approved housing bodies were regulated under the voluntary code, representing almost 80% of the AHB Stock (DECLG, 2013; Housing Agency, 2015).

The fifth of these policy initiatives, a new Social Housing Strategy, was brought forward in November 2014 (DECLG, 2014). The impetus for the Strategy came from the need to develop policy in more depth from the Housing Policy Statement of 2011, and from increased capital allocations to housing from Exchequer sources. The Strategy has three pillars, designed respectively to increase social housing supply by 35,000 units, to increase private sector involvement, and to a programme of reform and innovation. While the Strategy ostensibly

aspires to restore the State “to a central role in direct provision of housing through a resumption of building on significant scale” (DECLG, 2014), the vast bulk of the units proposed to be delivered into social housing are via social housing. It is an explicit goal of the Strategy that 75,000 households will be housed through an “enhanced” private rental sector. Pillar 1 of the Strategy aspires to the provision of 35,000 new social housing units in the years to 2020. However, while the Strategy talks of re-starting local authority provision, it also consistently refers to acquisition and leasing as part of that delivery. Taking the proposed spend of €3.8bn on these 35,000 units, it is clear that a sizeable portion will be leased, presumably from the private sector. The Strategy also seeks to leverage private sector finance, and to create new mechanisms, including off-balance-sheet financial vehicles to provide new housing. Importantly, there is a multi-annual budget, clear targets and an outline of the methods of delivery. Shortly after the Strategy’s launch, the Government announced the creation of a cross-departmental “Clearing House” group to evaluate private sector proposals for social housing (DECLG, 2015). Almost two and a half years on from the launch of the Strategy, the shape of any of the private sector or off-balance-sheet mechanisms is no clearer. A number of direct build projects have been sanctioned or are under evaluation, and the AHB sector has been active in developing proposals to take advantage of cheap HFA debt and Social Housing Strategy funding. However, given the scale of the challenge, it is difficult to see 35,000 new units coming into existence without a significant increase in wider, private housing production that could provide a source of acquisitions.

The sixth policy initiative, *Rebuilding Ireland*, a more comprehensive strategy for housing sought to approach the overall housing supply issue in a broader way, by widening the scope of the document to the wider housing market, vacant stock, as well as measures to increase social housing supply. This raised the target numbers of units to be supplied, but did not radically alter any of the supply mechanisms. Significantly, it also failed to take the opportunity to promote an intermediate or “affordable” housing tenure, preferring instead to pursue a vague “cost rental” model. One of the important innovations in *Rebuilding Ireland* was the commitment to deploy State land for mixed tenure developments. The implication, though not at all explicit was that this could include some affordable housing. While the document remains gnostic on the precise vision for “mixed tenure”, it is nonetheless encouraging that for the first time, policy appears to acknowledge the conundrum of a need for supply at scale while ensuring sustainable communities.

3.9 Conclusion

In This chapter has ranged over more than 150 years of low-income housing provision and set out the sequence of events that has brought about the current system of social housing. For most of that period, just one State-supported housing system was in operation: the traditional “Council” house. However, the pace of change in the past 25 years has accelerated dramatically to the extent that “social housing” can include any of the following options:

- (a) A traditional “Council” house owned and supplied by the local authority with de facto security of tenure with the council as landlord.
- (b) An AHB property with the AHB as landlord. Many of these are effectively “Council” tenancies.
- (c) A RAS dwelling, which is a private tenancy where rent is paid by the local authority and where the local authority has assumed responsibility to provide a secure tenancy, even if not in the same property.
- (d) A dwelling leased from a private landlord and sublet to a tenant where the landlord/tenant relationship lies between the end tenant and the local authority, while the head lease is between the owner and the local authority.
- (e) An availability agreement property, where the tenancy may be with a private landlord or with a housing association, but where the rent is paid to the landlord, with a differential rent paid by the tenant.
- (f) A HAP property: a private tenancy arranged between a tenant and a landlord with a further agreement between the local authority and the landlord.

Hence there exists a wide variety of social tenancies with radically different levels of security and support. Thus Irish housing policy has come to a critical juncture and the validity of the path dependency hypothesis with regard to Irish housing policy. This chapter shows the importance of path dependency in understanding how the particular characteristics of the Irish housing system evolved and the mechanics of change. The chapter also demonstrates the importance of historical analysis in understanding institutions and their particular features with path dependency analysis showing that the potential for disruptive change of institutions is highly constrained.

The analysis shows that many moments of contingency occurred throughout the history of Irish housing. It is perhaps noteworthy that one of the most seismic moments – independence from the United Kingdom passed over with relatively little change to the trajectory of housing policy. However, many other moments had far reaching and sometimes unforeseen consequences for policy in the long run, for example the decision to abolish rates which affected local government spending and the decision to move to differential rents which broke the link between the cost of providing the dwelling and the cost of remunerating that capital. The chapter also highlights the direction of travel in policy since the 1980s which opened-up new avenues of housing supply and methods of delivery via revenue-based funding mechanisms, and use of the private sector.

The chapter highlights how the economic collapse of Ireland in the 2008–2010 exposed the weaknesses of the old capital funded models, but the new channels of delivery are not fully mature and require concerted State action. The next chapter provides a closer analysis of the social housing in Ireland, incorporating three core elements of institutionalist path dependency, social/affordable housing and funding methods.

CHAPTER 4: THE SOCIAL HOUSING SUPPLY SYSTEM IN IRELAND

4.1 Introduction

Chapter 3 articulated the evolution of the Irish housing system in a historical institutionalist path-dependent context. The purpose of Chapter 4 is to focus on supply mechanisms and existing funding models for the delivery of social/affordable housing in Ireland within the context of path dependency. Understanding these relationship is critical to the construction of an institutional model for leveraging private finance in the provision of low-income and state-supported housing. The nexus between the market and social housing, in particular the need for social housing usually arising from market failure means that it is important to review the operation of the housing market in Ireland particularly in relation to the social housing supply system and role of demand-side drivers.

For a range of reasons, which are more fully explicated in this chapter, the private sector is identified as a key provider of rental accommodation for social housing purposes. The chapter shows how housing supply in Ireland is constrained, leading to rising rents and prices, causing shortage which has been most acutely felt at the bottom of the rental market. Furthermore, the chapter argues that the viability of newly constructed dwellings is marginal across large swathes of the country and although the improved economic climate has stimulated the market for owner-occupier houses, social/affordable housing development remains a challenge, especially in areas where affordable rents would be expected. Consequently, landlords in the existing private rented sector are maximising rents and undermining affordability for lower income cohorts. Given these constraints, the chapter argues that institutional equity investment presents the best and most sustainable means of providing social/affordable housing but requires policy measures to facilitate a funding model for cost-based rents. In this respect, Chapter four specifically addresses the third objective of the thesis namely to evaluate existing supply-side mechanisms and funding models in the delivery of social/affordable housing in Ireland.

The chapter is structured as follows. Section 2 briefly discusses salient issues pertaining to the theory of housing supply in terms of demand, supply and elasticity with reference to the market in Ireland as appropriate. Section 3 examines demand-side drivers notably economic fundamentals, demographics, house price and rental trends. Section 4 forms the core of this chapter focussing on supply-side issues, this is complemented by Section 5 which assesses the effectiveness of the various delivery mechanisms for social/affordable housing in Ireland. Section 6 explores finance models for delivering social/affordable housing and Section 7 draws conclusions and points towards the need for new funding sources for social/affordable housing.

4.2 Housing Supply Theory

In the literature, there is consensus on the factors impacting new house supply – a combination of second-hand house prices, finance availability, construction costs, and price and regulation of land. However, there are different approaches to the issues with some scholars concentrating on house prices whilst others have focused on housing stock changes. Ball *et al* (2010) argues the case for either or both approaches, citing studies based on stock-adjustment models that focused on the level of house prices. Ball *et al* (2010) argue that the supply equation models can be identified as a sole contributor, but also argues for the stock-adjustment approach (Andrew and Meen, 2003).

Generally accepted theory is that following a systemic shock (as happened in Ireland in 2008–2012), housing prices adjust to clear the market of the housing stock. This has been demonstrated by Topel and Rosen (1998) and is supported by later work in Ireland by Duffy and Fitzgerald (2014). However, even when new housing supply comes on stream, it will only add a small proportion to the existing stock, generally at a rate not exceeding 1% (Barker, 2004). Thus, as new units can only be sold at the existing (stock) price, and construction depends on the level of market prices relative to marginal construction costs there is a synergetic relationship between cost and price. As construction starts to expand, the initial increase in prices (resulting from the rise in demand) will be offset through the cumulative effect on the stock. Poterba (1984) points out that prices may initially overrun, as convergence to the equilibrium state may take several decades.

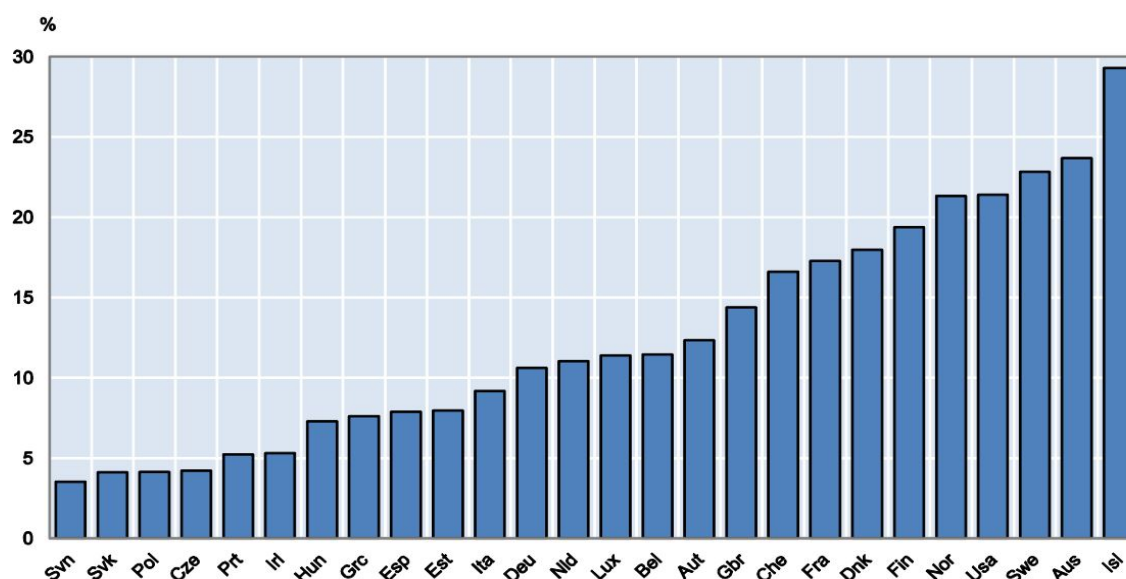
If land supply is inelastic, then as demand increases land prices rise as output expands. The importance of this factor is likely to vary both within and between countries. For example, Bramley (2002) argues that the UK land-use planning system imposes major supply constraints which impacts on prices. This is discussed in detail for the UK in the Barker Report of 2004 and is probably equally applicable in Ireland. In the US, the greater volatility of house prices in the coastal states has been attributed to more restrictive zoning regulations (Glaeser et al, 2008).

Of course, there is mobility within the existing stock that affects supply, as households move according to circumstances. A study on housing markets and structural policies in OECD Countries (Andrews et al, 2011) found that the average household's probability of moving within two years is 12% (measured as the percentage of households that changed residence

within the last two years). This study found that mobility was lower in southern and eastern European countries, compared with English-speaking and Nordic countries, where households move twice as much. This study also noted that such mobility tends to be lower among homeowners than renters.

In Irish terms, a housing stock of just over two million units and a turnover rate of 6% over two years (Figure 4.1) implies an annual market turnover of about 60,000 residences. This is in line with the stock turnover figure of 50,886 in 2016 and 50,507 in 2015 (CSO, 2016). This is a relatively low turnover rate pointing to the conclusion that in Ireland new supply, as distinct from the recycling of existing housing, may have a greater impact on price elasticity than in countries with higher turnover and go some way to explaining big swings in prices of the course of an economic cycle.

Figure 4.1 Percentage of households that changed residence in the two years to 2008 (source Andrews et al, (2011)).



Literature on the issue of price and price elasticity within housing markets (Glaeser and Gyourko, 2003 and Glaeser *et al* (2008) indicates that in the long run housing prices reach a steady state following any increase in housing demand. First, as construction starts to expand, the initial increase in prices (resulting from the demand rise) is offset through the cumulative effect on the stock, prices initially overshoot, although as Poterba (1984) points out, convergence to the steady state may take several decades., Second, if land supply is inelastic, then land prices rise as output expands, again reducing profits or feeding through into house prices due to possible land hoarding (Ball et al, 2010).

In short, an increase in housing demand will translate into increases in real house prices if new housing supply is not responsive. In countries with more flexible supply chains housing investment should respond more rapidly to large changes in demand. However, despite its importance, very little cross-country empirical evidence exists on such supply responsiveness, partly reflecting data constraints. Andrews et al's (2011) estimates of the long-run price responsiveness of new housing supply for some 20 countries show that housing supply responsiveness varies substantially across countries. Housing supply tends to be relatively flexible and responsive to price signals in North America and some Nordic countries, while it is more rigid in continental European countries and in the United Kingdom. These findings are broadly consistent with the study carried out by Malpezzi and MacLennan (2001) who looked at the long-run price elasticity of supply of new residential construction in the US and the UK. Their findings were that elasticity ranged from 1 to 6 in the US but from only 0 to 1 in the UK with Ireland very close to the UK.

Glaeser et al's (2008) work has particular relevance supply, demand, and price elasticity of housing in Ireland. Their examination of housing supply bubbles looked at almost 100 US urban areas using a market model plus local construction cost and land availability to argue that places with more elastic housing supply have fewer and shorter bubbles and with smaller price increases. Using these arguments, it would follow that Irish Government policy should be aimed at increasing the responsiveness of the development industry to supply more housing in the early stages of economic recovery rather than wait for market forces.

4.3 Demand-side Drivers

This section considers demand-side drivers firstly through a consideration of economic fundamentals, secondly in terms of demographic trends and thirdly with respect to the key market indicators of house price trends and rents.

4.3.1 Economic fundamentals

The macro-economy is the mainspring of the housing market driving both demand and supply. Following a period of relative underperformance in Ireland, the mid-1990s marked a change in

the economic fortunes of the Irish economy. The first part of this convergence with the higher income countries within the EU was dubbed the “Celtic Tiger period”, an era which ran from 1995–2001. During this period, GDP growth averaged 9.4%, with double digit growth achieved in some years. With Irish labour costs at the time very competitive, Ireland rode the wave of export-led growth in a period of significant globalisation. Unemployment fell rapidly over the period, from 13% in 1995 to less than 4% in 2001. With labour prospects much improved, this period also saw a progressive increase in net migration flows into the country, with inward net migration rising from -2000 in 1995 to +33,000 in 2001. Rising incomes and increased population contributed higher housing demand throughout this period.

After a brief period of slower economic growth in 2002, Irish economic growth reaccelerated from 2003 onwards, but the dynamics of this period were different. Ireland’s competitiveness was being eroded by rapid wage growth, thus export growth was a less important ingredient in this phase. Instead, rapid credit growth facilitated a boom in construction. Intense competition between banks brought about a period of looser credit conditions which increased homeownership rates, but also a substantial increase in speculation by the buy-to-let housing sector. During this period the balance sheets of banks ballooned, facilitated by lending in the interbank markets. When the international credit markets froze, starting in 2007, what were first diagnosed as liquidity problems plagued the Irish banking system and led to a significant credit tightening and subsequently the Irish depression of the 2008-2013 period. The bailout of the banking system by the Irish State, partly contributed to the request of an €78bn adjustment programme to the “Troika” of the ECB, IMF and European Commission. This programme ran from December 2010 to December 2013, during which time output in the Irish economy stabilised and the banking system was recapitalised and deleveraged.

Starting in the second half of 2013, the Irish economy began its recovery. Inward foreign direct investment (FDI), particularly from US firms, has played a major role in the recovery and record low ECB interest rates also played a role in the adjustment process for Irish households. While doubts currently exist about the accuracy of Irish GDP statistics as a gauge of economic activity due to the peculiar impact of the multinational sector on government accounts, underlying measures of activity suggest a growth rate of c.4% in 2017.

Thus the Irish economy has recovered significantly over the period 2013-2017 (Table 4.1) and overall, the macroeconomic fundamentals for Ireland are favourable with strong rates of growth, GDP and GNP, and employment key drivers fuelling demand for housing.

*Table 4.1 Macro-economic indicators 1995-2017 (Source: CSO, Goodbody *to Q2 2017 for employment, Goodbody forecast for 2017 GDP & GNP)*

	1995-2001	2002-2007	2008-2012	2013-2017*
GDP	9.4%	5.4%	0.5%	15.0%
GNP	8.1%	4.8%	-0.2%	15.5%
Employment	4.3%	3.4%	-3.0%	2.6%

4.3.2 Demographics

As indicated by the literature, demographics is a key demand-side driver for housing in particular total population, age composition and household size. The population of Ireland after consistently declining from the mid-19th century, stabilising in the mid-20th century and increasing for the past 50 years has reached a current level (2016 figure) of 4.76m. To illustrate the pace of growth in the 21st-century, between 2002 and 2016 the population rose by 844,662, reflecting an increase of 21.6% or 1.41% pa. However, demographic dynamic varies widely across the country with the Dublin commuter belt and the counties of Meath, Kildare and Laois among the fastest growing areas (Table 4.2) with significant implications for housing supply.

Table 4.2 Population size and growth by region (source CSO, 2017)

Regional Authority	Pop 2002	Pop 2016	growth	% growth	% growth pa	2016 Pop share
East including Dublin	1,862,630	2,328,517	465,887	25.01%	1.61%	48.90%
Southern	1,343,563	1,585,906	242,343	18.04%	1.19%	33.30%
North/West	711,010	847,442	136,432	19.19%	1.26%	17.80%
Total	3,917,203	4,761,865	844,662	21.56%	1.41%	100%

While population growth is an important factor, a more sensitive variable regarding pressures on the housing market is the rate of household formation. Analysis over the period from 2010 to 2016 (second quarter figures) demonstrates an overall increase in the number of households by 3.1% although the rate of change was irregular with a decline of 0.7% between 2010 and 2011, at the height of the financial crisis in Ireland. However, rates of household growth recovered in 2012-2013 (with a 1.3% growth rate) and most significantly between 2015-2016 with a 2.2% increase in the number of households (Table 4.3). Highlighting demographic shifts, the rate of growth of one person households over this period was 8.8%.

Table 4.3 Population and household growth (source CSO, 2017)

Household size	2010q2	2011q2	2012q2	2013q2	2014q2	2015q2	2016q2
1 person	379.3	362.7	366.3	381.1	378.9	384.4	412.6
2 persons	500.3	496	504	511.5	511.1	493.4	493.5
3 persons	304.5	309	294	303.1	297.4	305.1	312
4 persons	282.3	278.2	285.5	285.2	285.7	286.5	288.4
5 persons	139	148	152.1	142.7	147.5	147.9	153.4
>6 persons	68.8	68.8	66.5	66.5	67.6	72	65.8
Total households	1,674.30	1,662.70	1,668.30	1,690.10	1,688.20	1,689.30	1,725.80

A key indicator of housing need from the literature is the decline in household size and the pressure on the housing stock and supply-side pipeline. Ireland, in common with other comparator countries (Chapter 5) has experienced a steady decline in average household size from 3.7 in 1991 to 2.73 persons per housing unit. It increased marginally to 2.75 in the most recent intercensal period but this was still well ahead of the European and UK average of 2.3. Projecting forward to the equivalent European average household size would lead to demand for an extra 300,000 units in Ireland (CSO, Eurostat, and Goodbody).

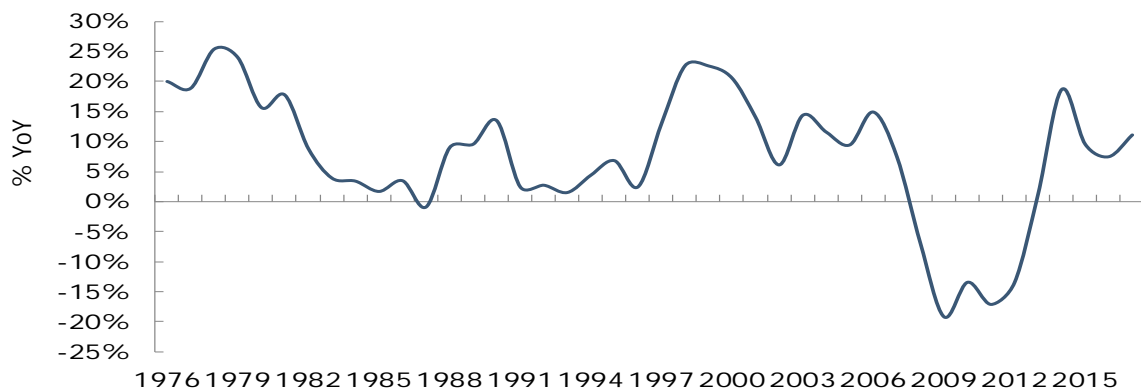
Regarding demand estimates there is significant divergence at the macro level and even greater variation at the local level when it comes to allocating the projected growth to particular regions or urban areas in Ireland. For example, the government forecast suggests allocations of 25% for Dublin, with the balance in the other cities and the rest of Ireland with the Housing Agency estimating a minimum requirement of 81,118 housing units between 2016 and 2020 or 20,279 on average per year (Housing Agency, 2016) of which 44,902 (55.4%) are needed in the five major urban centres in Ireland and in Dublin City and the surrounding suburbs a minimum requirement for 33,109 units (6,622 annually). However, Davy (2017) place a higher estimation of a minimum 35,000 units per annum to 2021 and Hughes (2017) argues that to alleviate the short-term shortage in Dublin, upwards of 60% of housing output should be concentrated in the Greater Dublin Area. The difference between official Government/Housing Agency figures and those of other experts are disturbing as they involve an under or over allocation of scarce resources with a significant impact on prices and affordability for homebuyers or renters.

4.3.3 House price and rental market trends

The Irish housing market is integral to the overall economy and like the macro-economy has been subject to cyclical fluctuations. This pattern has been established over the long-term, with

the market punctuated by periods of price booms and crashes (Figure 4.2). For example, with the market peaking in 1979, 1999 and 2014 and troughs falling below zero house price growth in 1987 and in the period 2009-2012 with prices dropping year on year by between 15% and 20%. Indeed, in Dublin house prices at the deepest point of the recession were down 56% from their peak and apartment prices down over 62% (CSO).

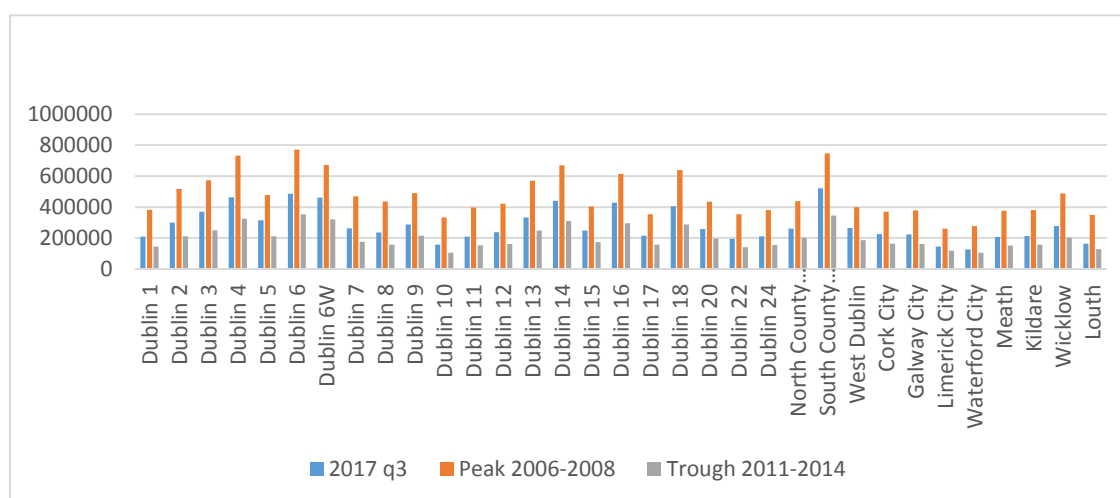
Figure 4.2 Cyclical changes in house prices in Ireland (source, CSO, DHPCLG, ESRI)



Source: CSO, DoHELG, ptsb/ESRI

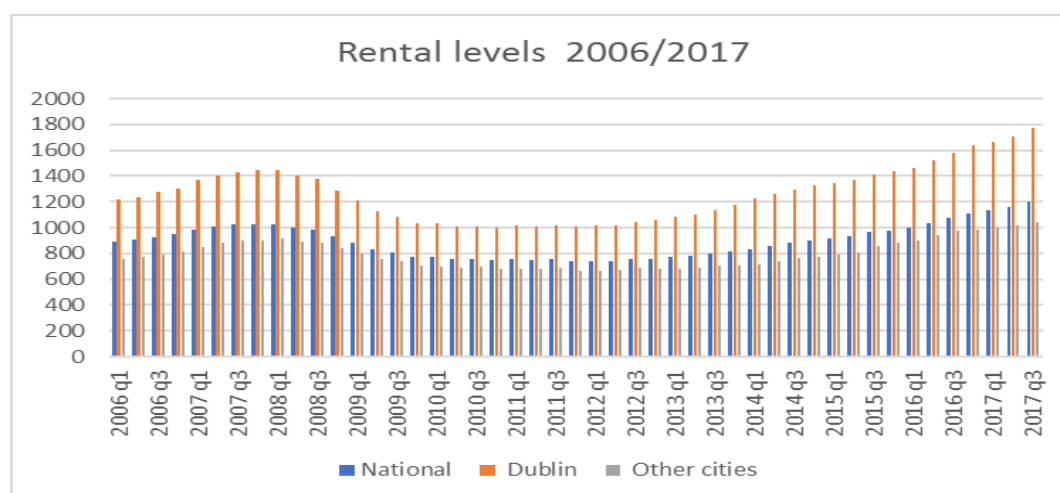
In terms of the recovery phase in the Irish housing market, evidence from Daft.ie shows prices starting to rise in 2013 with a year-on-year increase of 6.5%. Indeed, the rate of house price growth, reached 17% in 2014 falling back to 7.1% in 2015 and rising again to 9.0% in 2016 (Figure 4.2). According to figures provided by Daft.ie, the rates of increase in Dublin were even higher with average price increasing from €233,920 in 2013 to €354,765 in 2017 (quarter three figure), equivalent to a 52% rise. However, like all housing markets there is considerable spatial variability in rates of house price growth, for example the distribution of house prices across the Greater Dublin Area and key markets in Ireland demonstrates a complex picture depending on the level of granularity (Figure 4.3).

Figure 4.3 House price variations in Dublin and key market areas (source, Daft.ie)



Regarding rental levels, trends are similar to the owner-occupier housing market with the same sharp peak, deep trough and subsequent recovery apparent over the period from 2006 to 2017 (Figure 4.4). Rents rose from a national average in 2006 of €900 per month, peaking in 2008 at just over €1,000 but dropping back to €743 in 2012. As in the owner-occupier market, the rate of post-recession recovery has been sharp with rents escalating to nearly €1,200 per month in the third quarter of 2017, a 61% rate of increase, that is slightly above the house sales market but of similar magnitude. In Dublin, rents in 2017 averaged €1,744 per month rising from €1,217 in 2006 and a low point in the current cycle of €1,004 in 2010.

Figure 4.4 Rental levels from 2006 to 2017 (third quarter) (source daft.ie.)



Due to increasing issues with rental affordability, the Irish Government in 2016 introduced rent pressure zones, initially intended for Dublin and Cork city but were extended to Galway and several commuter belt towns, limiting annual rent rises to 4% for a period of three years.

Affordability analysis, based on the assumption that 33% of gross income is the upper level for housing costs, shows that a household with a gross income of €60,000 per annum and a 20% tax take would pay a rent of €1,300 per month. In the case of house purchase, the Central Bank has imposed strict lending limits of 3.5 times annual gross plus a deposit of 20% for all seeking a mortgage. First-time buyers are required to have a 10% deposit. However, the purchasing power of the majority of household is significantly below that needed to purchase in the market with the current average house price in Dublin being €345,000 (Source: Daft.ie) relative to average household income level of €55,000. Analysis shows that a house-buyer would need a household income of €90,000 per annum to purchase a house selling at the average price level for Dublin (Table 4.4).

Table 4.4 Central Bank of Ireland borrowing limits

Gross Income	Max Borrow	Deposit	Price
€40,000	€140,000	€15,556	€155,556
€50,000	€175,000	€19,444	€194,444
€60,000	€210,000	€23,333	€233,333
€70,000	€245,000	€27,222	€272,222
€80,000	€280,000	€31,111	€311,111
€90,000	€315,000	€35,000	€350,000
€100,000	€350,000	€38,889	€388,889

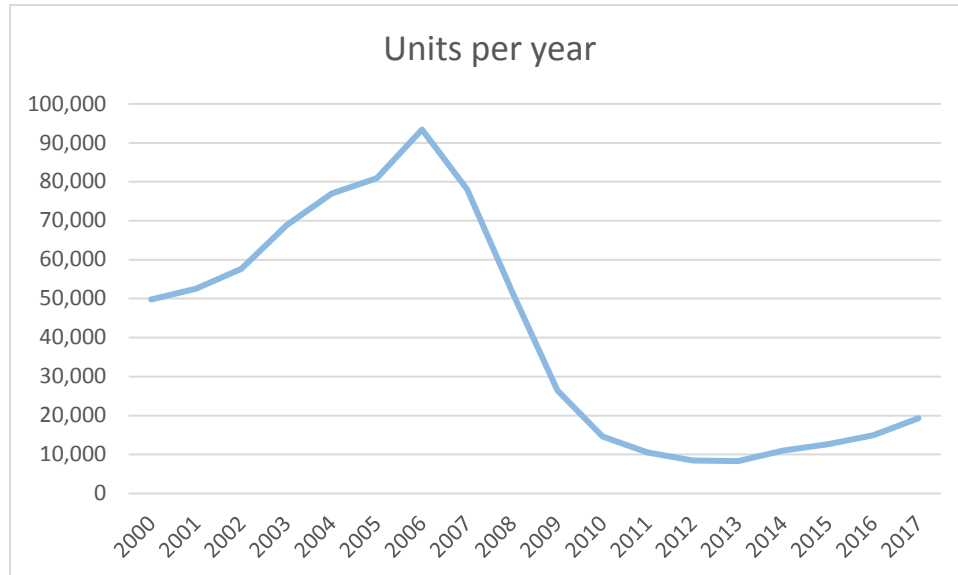
4.4 Supply-side issues

At the start of the recession in Ireland, there was an available stock of over 62,000 properties for sale on the market. At current absorption rates, this amounts to more than one year's supply. However, this stock was gradually absorbed and by end 2016 the number of housing units listed for sale had fallen to just under 22,000 (Source *Daft.ie*). Similarly, in the rental sector, the stock of vacant residences available to let in 2008 amounted to circa 27,000 units of which 6,000 were in Dublin. However, by end 2016, the available stock had fallen to just 4,000 units of which only 1,500 were in Dublin (Source: *Daft.ie*).

The standard market response to a scarcity of any product is for new supply to emerge to meet that demand. However, in the case of housing markets, that response can be impeded by supply side blockages which range from construction period lag to non-viability of new development. The output of new houses (Figure 4.5), as measured by the preferred government method of counting the number of connections to the electricity grid, highlights the impact of the recession

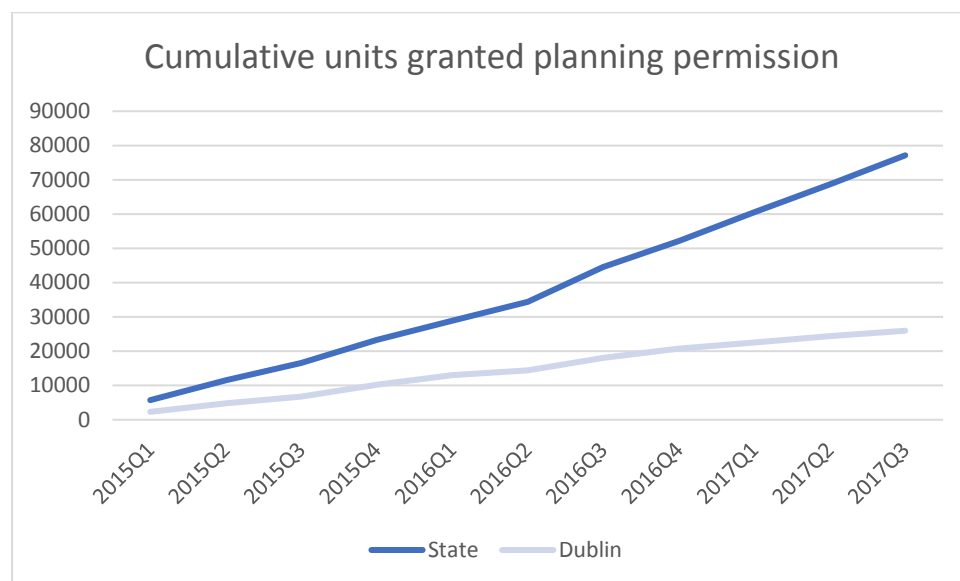
on new supply and the slow response by the housing-building industry in the recovery cycle with 93,419 new units in 2006, falling back in 2013 to 8,301 units at the trough and rising in 2017 to an estimated 18,262 new housing units (DHPCLG, 2017).

Figure 4.5 New housing supply 2000-2017, ESB connections (source: DHPCLG statistics)



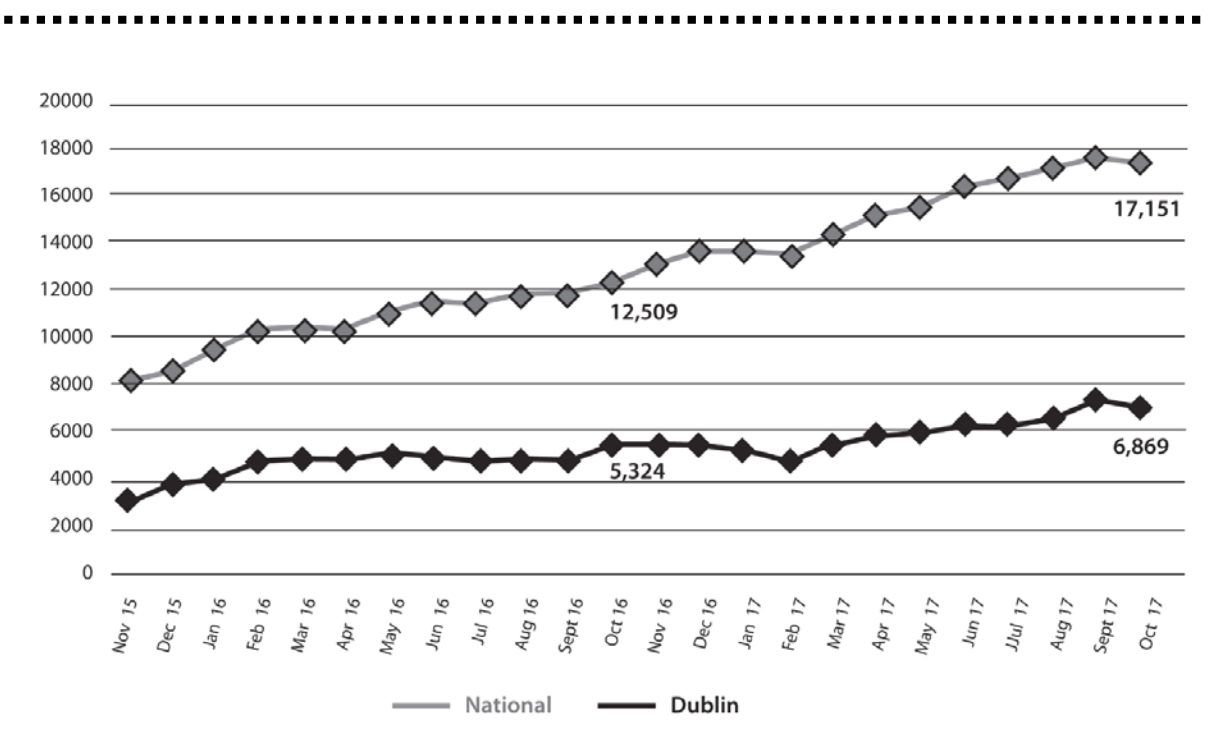
However, these housing output numbers have been challenged with Davy Stockbrokers (2017) arguing that the recent official figure for housing completions using the ESB connections approach overstates the true level of house building and that housing completions in Ireland over the past two or three years have been heavily reliant on previously built “ghost estates” being occupied. Furthermore, Goodbody Stockbrokers (2017) have developed their own measure of housing supply, based on Building Energy Ratings (BER) certificates issued, which shows that new housing supply in 2016 was a third of the “official” electricity connections data suggesting that the housing demand/supply imbalance in Ireland is probably even more severe than previously assumed. However, with changes to policy such as reducing Part V requirements from 20% to 10%, investing in infrastructure and removal of development levies for homes priced under €300,000 in Dublin, (below €250,000 in Cork), the housing supply industry is beginning to respond. Planning permissions for 12,953 new homes were granted in the 12 months to mid-2016 and 19,247 new homes were granted during the twelve-month period up to end June 2017, an increase of 49% year on year (Figure 4.6). Of these, 6,662 were in Dublin and 12,584 in the rest of the country (DHPCLG, 2017).

Figure 4.6 Units granted planning permission, 2015 Q1 to 2017 Q3. (CSO)



The upward trend in planning permissions is mirrored by commencement notices served by developers prior to starting construction. In total 17,151 commencement notices (of which 6,869 were in Dublin) were served in the 12 months up to October 2017, up 37% year on year (Figure 4.7). These figures indicate that from a project supply level of about 8,300 new housing units in 2013 (as measured by the electricity connections yardstick), output has picked up significantly, but to meet housing output targets, almost 20,000 units per annum are required.

Figure 4.7 Monthly commencement notices November 2015 to October 2017



That scarcity of new housing supply is attributable to multiple factors:

1. The decimation of the house development industry during the recession due to the banking collapse and bankruptcy or liquidation of developers;
2. Scarcity of finance for the development process including land purchase, construction, and soft costs;
3. Availability of existing stock at prices below replacement cost;
4. Constraints on mortgage lending imposed by the Central Bank;
5. Affordability of new homes to households in terms of monthly debt service or rental cost;
6. Long timescale for regulatory approvals;
7. Part V requirements;
8. Scarcity of infrastructure and serviced development land;
9. Many home owners and buy-to-let investors in negative equity and unable to trade on or up;
10. High potential cost inflation.

Several of these factors are relevant to the viability and volume of new development. Common yardsticks for measuring viability of a housing development are cost/price ratio of a new three-bed semi-detached house and the cost-value ratio of a new two-bed apartment. In this context, the Society of Chartered Surveyors Ireland (SCSI) produced a detailed report in 2017 which showed that the total development cost of a three-bed semi-detached house would be €330,493 (Table 4.5). However, the land costs in this example may be unduly high, as evidence provided by IRES REIT in Clonsilla in west Dublin had an average development cost of €295k (IRES, 2017) suggesting a lower viability point of circa €300,000. Indications are therefore, that as house prices have increased, the viability of new development is stimulating higher levels of construction activity.

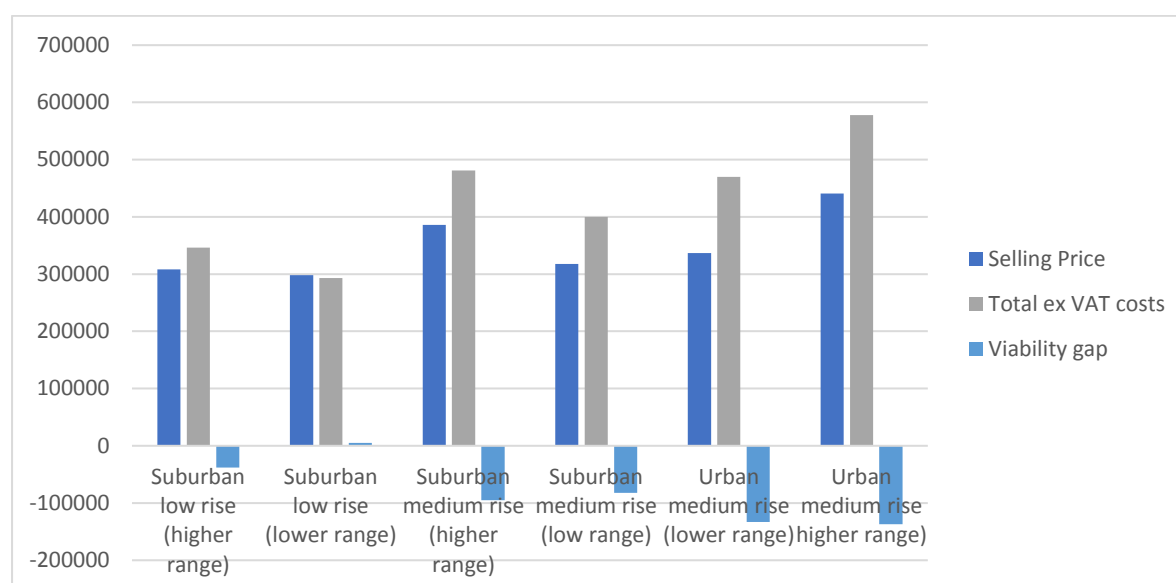
Table 4.5 Development costs of a three-bedroomed semi-detached house (source SCSI, 2016)

Construction Cost	€150,251
Land	€57,500
Developer's profit	€37,980
Soft Costs inc. levies, finance, fees	€45,452
VAT	€9,310
Total	€330,493

Converting house construction cost and purchase prices to rental levels can be fraught with difficulty, as views differ on the appropriate yield to apply. The Clonsilla transaction, with a rental value of €1,650 per month (€19,800 per annum) shows a net yield of just 5% after

allowing for operating cost of 15%. Therefore, at a construction cost of €300,000 and a rental value of €19,800 per annum, it is viable to provide a rental house. However, for developing higher density new apartment schemes, the cost of developing a new two-bed (79 sq.m) unit in ranges from €293,000 in a suburban, low-rise location to €470,000 in a mid-rise city-centre location and could rise to €637,471 depending on location, standards and land values (Figure 4.8). Apartment sales prices at mid-2017 for such units ranged between €298,000 and €441,000.

Figure 4.8 Viability of two-bedroomed apartment by location in Dublin (SCSI, 2017)



Having considered supply-side issues, the next section of this Chapter explores in more detail and assesses the respective effectiveness of the main mechanisms for the supply of social/affordable housing.

4.5 Social Housing Supply Mechanisms

This section specifically considers the varied range of mechanisms for the delivery of social housing provision in Ireland. This also includes affordable housing as these schemes fall within the definition of social housing adopted from Haffner et al (2009, 2010) where allocation is on the basis of need – albeit that the need arose from lack of ability to purchase in the market.

In Ireland, social housing support is provided through three main channels:

1. Local authority provision
2. AHB provision

3. Private sector tenancies with support.

Local authority provision is the largest of these accounting for 112,000 properties. In Ireland each housing authority (the local authority) operates under the auspices of the Minister for Housing, Planning, Community and Local Government who makes regulations and produces guidelines that must be followed in determining whether households are eligible for social housing support. Section 20 of the Housing (Miscellaneous Provisions) Act 2009 requires the housing authority to carry out an assessment to ascertain if a household is eligible for social housing support, and if so the form that support should take. In essence, the two principal criteria for eligibility for social housing support are (a) the income of the household concerned; and (b) the availability of alternative accommodation. Under the Social Housing Assessment (Amendment) Regulations 2011, the Minister sets maximum income limits for each local authority area. These relate to net disposable income, and for high-demand areas such as Dublin and metropolitan counties are set at €35,000 for a single person household up to €42,000 for a couple with four children. This reflects income limits at around 80–100% of median, and lower thresholds around the country reflect similar correlations. Given that the availability of alternative accommodation renders the needs for State support unnecessary, this implies that Irish public policy perceives that households at this level of income are likely to be in need of support to house themselves.

The structures for funding local authority owned housing were described in Chapter 3 including that the State traditionally paid the capital costs of building the units, and that the differential rents paid by tenants did not cover the full cost of producing the house. As the local authority is in law the housing authority for its area, and because of the way the housing system has evolved, all social housing schemes and programmes are administered through them. Hence the local authorities are central to social housing in Ireland, a role that has widened considerably in scope and, compared to the past as discussed in Chapter 3, has now a more strategic role working with AHBs and the private sector in providing housing and acting as a conduit for funding and policy from central government. This is a key point in understanding the institutional framework for housing. The centrality of the local authority to housing delivery is a defining feature of Irish social housing. Even in the face of ongoing centralisation of policy to central government, and delegation of supply to the private and voluntary sectors, local government has remained the focal point. Local authorities have however moved from their position of provider, to becoming the locus of housing administration and regulation. Thus,

almost all government schemes are delivered via local authority structures, even those involving the voluntary or private sector.

This process has been characterised as part of the neoliberal “roll-back” phase described by Peck and Tickell (2002), where the role of the State in the provision of services, and the managerialist view of previous post-war decades is replaced with a more “entrepreneurialist” approach by government (Harvey, 1989). This manifested itself in a series of reforms in Irish government including local government. Hardiman and MacCárthaigh (2008) describe the new public management change programmes that were implemented in Ireland while Keogan (2003) describes more closely the reform programme in local government. These overt schemes for changes in public management were paralleled by a programme that saw the range of sources of housing opening out incrementally to include an increasing role for the housing association sector and more latterly the private sector. Untangling the path dependencies in this process is difficult. On the one hand, global thinking on governance from international organisations such as the IMF and OECD was supportive of such reforms (Hardiman and MacCárthaigh, 2008), while Peck and Tickell (2002) argue that this is part of an even more fundamental shift in structure in political economy towards neoliberalism. Contemporary accounts, Keogan (2003) described a series of reports from consultants that drove the reform process. How much of this is endogenous to an objective analysis of local government governance and how much is driven by exogenous factors in the wider world cannot fully be discerned. However, a significant shift in the institutional framework for housing occurred.

AHBs, as discussed in detail in Chapter 3, are non-profit organisations whose purpose is the provision and management of housing for households in housing need at affordable rents. AHBs own approximately 28,000 units in a highly disparate manner, both organisationally and spatially. The top 10 AHBs control just over 30,200 properties (via ownership, leasing, and management), while some 300 AHBs are active at varying levels. AHBs generally have little or no equity capital and rely on the state for virtually all their capital funding and much of their revenue funding through various support mechanisms. Traditionally, AHBs operated on the basis of 100% capital funding from central government via either the Capital Assistance Scheme (CAS) or Capital Loan and Subsidy Scheme (CLSS).

Concerning the private sector, there are a number of mechanisms by which the State supports lower-income households.

Rental Accommodation Scheme (RAS)

Households with a short-term need for accommodation have for many years been supported in private tenancies via the short-term income supplement known as “rent supplement”. In time, the number of households remaining long-term in such accommodation rose dramatically, and the Rental Accommodation Scheme (RAS) was conceived in response to this. As far back as 1999, Government had aspired to transfer rent supplement (then the responsibility of the old Health Boards) to the local government system which was the locus of housing policy delivery (Kenna, 2011; Department of the Environment and Local Government, 1999). Responsibility for rent supplement moved to the Department of Social Welfare (now the Department of Employment Affairs and Social Protection (DEASP)) where it now resides. In 2004, long-term recipients of rent supplement became eligible to transfer to RAS. The RAS tenancy is a hybrid. The landlord-tenant relationship is a private tenancy under the Private Residential Tenancies Act 2004, while the rent is negotiated and paid by the local authority to the landlord. The tenant in turn pays a differential rent to the local authority. In the early years of the scheme, tenants remained on the social housing waiting list and were eligible for offers of local authority accommodation. However, under the Act of 2009, RAS is now a form of social housing support. RAS is financed by the DEASP via the Department of Housing, Planning, Community and Local Government and the local authorities. There are currently approximately 20,000 RAS tenancies.

Housing Assistance Payment (HAP)

HAP was introduced in 2013 as a further step in the integration of the housing system. Under HAP, a recipient sources their own property within defined rent limits. The local authority pays the landlord directly, and the tenant pays the local authority a differential rent. Thus the tenant is paying the same rent as a tenant in any other form of social housing, and is free to work without losing their housing support (though as their income rises, so will their differential rent). There are several features of the HAP system that are significant for housing policy, public policy in general, and for the choices open to tenants in terms of housing. The principle of HAP is that it is available to any household who is approved for social housing support.

Households earning up to between 80% and 100% of median income (depending on location and household composition) are eligible for social housing and can therefore claim HAP. However, the HAP scheme also permits additional payments to landlords by tenants to top up the State payment. This brings a much wider range of accommodation into the scope of “social housing support”. For example, the rent limit set by the HAP (Amendment) Regulations 2017 (S.I. No. 56/2017) for a couple with one child in any Dublin local authority is €1,250 per month. That couple could therefore rent an apartment at €1,600 paying a top-up of €350. To this must be added their differential rent to the local authority. Assuming an annual disposable income of €30,000, in, say South Dublin County Council area, their monthly rent would be approximately €250, bringing their monthly housing cost to €600 (i.e. a net subsidy of €1,000 pm). That housing cost will represent about a quarter of their income, which is an affordable rent. At that income level, they earn approximately two thirds of the median income for the Dublin region (CSO, 2016). The ability to select accommodation (within certain limits) and to pay top-ups accordingly creates a de facto “affordable” rental tenure.

From a theoretical point of view, the HAP system represents an interesting case study in institutional change. The series of decisions that led to the introduction of HAP are rooted in the longstanding policy goal of moving long-term rent supplement recipients into the social housing system proper. The second motivating force was the recognition that there was a labour market activation benefit to allowing such households to work (removing the employment trap). Given the increasing dependence on the private rented sector in general, and the high refusal rate of local authority housing from housing applicants, the choice that HAP offered tenants also appeared a good option in terms of efficiency. As there is no exit mechanism to withdraw HAP support from a household at present, and there is no tapering of the level of State payment, HAP has the potential to become a very open-ended and expensive scheme. HAP appears to offer both a purely social housing choice for those who rely on the HAP transfer solely, and an affordable option for those with the means to pay more. Rebuilding Ireland aspires to providing 47,000 properties between 2015 and 2020 from direct provision and from leasing. It also seeks to provide 75,000 units of accommodation via the Housing Assistance Payment. It is therefore clear that the State is committed to the private sector as a source of social housing supply, and that it needs a lot of stock to meet its needs.

Social Housing Current Expenditure Programme (SHCEP) (formerly SHLI)

In 2009, the Government introduced a new initiative whereby local authorities and approved housing bodies could lease property from the private sector which was then sub-let to social housing applicants. Approximately, 5,000 properties were fully operational in mid-2014 with approval granted for a further 2,700. Leasing differs from RAS in that the landlord is the Local Authority or AHB. Approval for leased properties depends on proving housing demand in the area concerned and the rent needs to be in line with reference rents in the area. The issue is further complicated by the sustainable communities' principles of housing policy which demand that there is no over-concentration of social housing tenants in particular areas or developments. This makes it difficult to achieve any scale in leasing volumes of properties, which in turn makes it hard to attract large-scale investors.

National Asset Residential Property Services Ltd (NARPS)

NAMA established a special-purpose vehicle to provide leased properties for social housing purposes. NARPS holds property for leasing to local authorities and AHBs. By December 2017, some 1,600 properties have been transferred to the NARPS vehicle, with a further 555 under negotiation. NAMA have said that they anticipate some 2000 units delivered in this way, and it appears that this number will be achieved. While no clear statement of intent as to the future of NARPS has been made, given the time-limited nature of NAMA, and its commercial mandate, the likelihood is that the NARPS SPV will be sold in time.

Rent Supplement

While rent supplement has been referenced in some of these initiatives, certain important features need to be explained. Firstly, in the context of the present discussion, rent supplement is *not* a recognised form of social housing by the State, despite falling comfortably within the definition of allocation based on need. It is effectively a residual form of tenancy that is made available to those for whom no other form of social housing can be found, and who cannot afford to house themselves. However, there are approximately 44,500 households receiving rent supplement, making it comfortably the second-largest body of low-income housing in the country (Department of Employment Affairs and Social Protection, 2016). Secondly, rent supplement makes up approximately 20% of the entire private rented sector. This means that the State is a major player in that sector. Thirdly, rent supplement limits are set by the State at approximately 18-month intervals. These effectively floor the market and because of this, the Department of Employment and Social Protection (DEASP) takes the view that increases are very quickly absorbed by the market moving the floor higher and accordingly is reluctant to

raise the rents. Such increases are normally targeted at the 30th percentile or rents in a given area. Furthermore, DEASP also believes that increases in rent supplement limits therefore place upward pressure on rents with consequent effects for other low-income tenants who have to compete with the rent supplement recipients for accommodation. The effect of this in a rising market with severely constrained supply means that many households are falling out of the housing market, and in the absence of alternatives are presenting to homelessness services.

As a consequence of the above schemes, the private sector has emerged as a key supplier of housing for social tenants. However, the nature of that sector, characterised by amateur landlords (the overwhelming preponderance of Irish landlords own fewer than three properties), short tenancies, and a general lack of security presents certain challenges to the supply and stability of the sector into the future. While recent years have seen the emergence of Kennedy Wilson, Hibernia REIT, and IRES REIT as larger scale holders of residential properties to let, these new landlords are not generally providing properties at rents that could be sustained by State-set rent guidelines, and indeed, it is likely that they would eschew such tenancies in any event. As rents have risen sharply (Section 4.3.2) with the recovery of the economy and the absorption of the supply overhang, many landlords are exiting low-income housing schemes like RAS and rent supplement. Recovering values have led many “accidental” landlords to sell, either voluntarily or under pressure from their creditors.

Models described in this chapter thus far have focused on the social tenant and welfare-dependent households and hence do not include higher-earning, more economically able households who might nonetheless struggle with the affordability. Whilst in theory households with gross incomes of up to about €45,000–€50,000 are eligible for social housing support, low levels of supply and allocation on the basis of need means that few households in these income brackets have been offered social housing and such households have to find accommodation in the private rental sector. However, renting at market rates can place such households into a housing cost overburden, where their accommodation costs may take up more than 30–35% of their disposable income. The private rented sector is currently not suited to long-term renting, and security of tenure. While Part V dwellings have established a number social tenancies in private developments, 2,910 in 2008 but falling to 908 by 2016, these measures by definition cannot provide a supply at the scale required with the waiting list for social housing at just under 86,000 at the end of 2017.

In terms of the rate of delivery of social housing this dipped dramatically in the recession and its aftermath reaching a low of 4,362 units in 2014. However, following the growth in house prices and rents (Section 4.3.3), though lagging by circa two years, social housing output has recovered substantially since 2015, with 19,045 new units delivered in 2016 and 27,892 new units delivered in 2017 (Table 4.6).

Table 4.6 Social housing output units delivered 2009-2017 (source, DHPCLG various years)

Year	Units delivered
2009	10,536
2010	8,055
2011	6,991
2012	6,221
2013	4,674
2014	4,362
2015	13,394
2016	19,045
2017	27,892

In terms of the effectiveness of the different delivery channels, 75% of new social housing came directly from market sources in 2015, rising to 83% in 2016. More specifically of the 19,045 social housing units supplied in 2016, 12,075 were through the HAP system with market purchases providing the next highest delivery route (1,680 units). In contrast, RAS is a declining mechanism and continued to deliver fewer units (1,256) while CAS/CLSS through AHBs provided only 331 units (Table 4.7). The long-term trend is that the private sector will deliver the majority of social housing units going forward with the target of 80% of new social housing in 2018, a figure already exceeded in 2016.

Table 4.7 Social housing supply by initiative 2009-2016 (DHPCLG, various years)

Year	total	CAS/CLSS via AHBs	RAS	HAP	Long Term leasing (SHCEP)	Market Purchases	Net Private Market uptake
2009	10536	2,011	3,999		437	727	
2010	8055	753	4,258		866	850	5974
2011	6991	745	4,234		1,193	325	5752
2012	6221	677	3,571		1,259	351	5181
2013	4674	211	2,875		1,042	253	4170
2014	4362	357	2,173	485	1,062	183	3903
2015	13394	401	1,836	5,680	1,477	1,104	10097
2016	19045	331	1,256	12,075	792	1,680	15803

The Government response to the supply-side issues started with an effort to revive the construction industry, through *Construction 2020* (2015) and *Rebuilding Ireland* (Chapter 3), which was accompanied by a significant increase in both capital and revenue funding for housing, to more than double between 2016 and 2018. The greater proportion of this funding was specifically allocated to social housing and associated infrastructure to facilitate the new development. Furthermore, this strategy has found expression in the National Planning Framework (NPF) (Government of Ireland, 2018) which includes housing policy objectives to deliver of 550,000 additional homes by 2040 (23,000 pa).

4.6 Social/Affordable Housing Finance Models

The previous section has reviewed supply side mechanisms in social/affordable housing sector. Before considering financing structures/models based on cashflow returns, it is useful to first consider in more detail the rental system. In this context, the Irish policy on the rent paid by tenants (the “differential rent”) is usually pitched at around 15-20% of net income. For example, Dublin City Council has a minimum weekly rent of €23.40, which is just 12.44% of the SWA rate of €188. The rent scheme seeks to produce rents of 15% of the assessable income of each earner in the household. The maximum rent on a one-bedroomed property is €301 per week – a figure substantially in excess of the market rate when the scheme was adopted in 2013 (Dublin City Council, 2013). Rent schemes are further complicated with a wide range of income sources disregarded for the purposes of assessing income, and with additional provisions relating to additional members of households. Differential rent regimes are further complicated by the fact that a different scheme applies in each local authority, and that rents in AHB properties can vary further with additional charges and slightly higher rents pertaining. As a consequence, there is no connection between the rent charged and the location or cost of the property. Notionally, a single-income, two-person household with a combined net income of €35,000 living in Dublin City could afford to pay rent of €875 per month at a 30% affordability metric. Average rents in that area for one-bedroomed accommodation are significantly in excess of this figure, though there are notionally properties that such a household could afford. The Differential Rent regime would require a rent of about half this figure.

As illustrated in Chapter 3, for much of the history of Irish social housing, rents were based on the cost of providing the dwelling. The gradual process by which rents came to be linked to incomes presents an interesting case study in path dependency and institutional change. A differential rent scheme was introduced in Cork in the 1930s with a view to assisting the very poorest households to afford rents. Norris (2016) records that the system was gradually extended across the country due to tenant agitation before being formally institutionalised in the Housing Act 1966. Pfretzchner (1965) from a more contemporary viewpoint explains that older homes were often on a fixed (cost-based rent) but that these became completely out of line either with incomes or with the cost of construction that then pertained. Furthermore, they were never revised due to political reasons. He notes that the then Minister was encouraging of differential rents. It seems that government officials were also supportive of differential rents. Meagher (1959) preferred differential rents as they offered a “long-term upward trend” that was absent from cost-based rents. Norris (2016) also notes that the belief at the outset of the differential rent regime was that better-off tenants would end up subsidising their poorer counterparts, but that this proved to be wildly optimistic.

The point at which one local authority moved to an income-based rent set in motion a profound shift in institutional arrangements for housing. It appears that the old fixed rent system which linked rents to costs of housing construction produced results that were just as anomalous as the system that replaced them. In both cases, the political nature of the decision-making process meant that *efficiency* mechanisms were subordinated to *legitimacy* and *power* issues related to the electoral process and the close link between the Irish electorate and its politicians. As the differential rent system became embedded, changing it to produce results that would be more equitable, such as removal of maximum rents became just as impossible as increasing rents under the old fixed rate system. Moreover, the pace of institutional change is instructive. From the time differential rents were first introduced in Cork, it was some 40 years before the system was formally incorporated nationwide. The process in between saw much discussion of reform, but what appears to have happened was *layering*. Pfretzchner (1965) records that in 1963, 53.6% of Dublin City tenants were on differential rents, with the balance (presumably older) tenants on fixed rents. Thus the system is characterised by very slow incremental change due to path dependency. In turn the path dependency is not endogenous to the housing system: it is part of the wider institutional framework within which the housing institutions reside, particularly the political structures that over-arch governance in all policy areas.

Each local authority is required to produce a housing allocation scheme and a housing rent scheme. Allocation of the scarce resource that is local authority housing is further complicated by priority cases, transfers, refusals, and housing areas. A housing authority will be presented with households who have a priority need for accommodation due to factors such as homelessness or unfit dwellings etc. Typically, an applicant household will express a preference for accommodation in a ranked order of housing areas. These may sometimes straddle housing authority boundaries. Refusals normally result in suspension from the list for a period of time, which time does not count as waiting, though such households may still re-join the list ahead of other non-suspended households. Most local authorities also make provision for households to apply for transfer to other accommodation after a period of time, and a certain proportion of available dwellings require to be made available for this purpose. Given that there may be strong mismatches between the housing stock available in an area and the housing needs of the applicant households, there can be great unevenness in allocation within and between housing areas in local authorities. Hence, for example, there may be very few one-bed units in an area where there is strong demand for such units.

The first significant initiative in housing finance for AHBs was the Capital Assistance Scheme (CAS), introduced in 1984. This originally provided grants to AHBs by way of a non-repayable loan from a local authority (Norris and Winston, 2004). The amounts were then recouped by the local authority from the Department of Housing, Planning and Local Government (DHPLG). The scheme was amended on several occasions to vary the maximum amount that could be “borrowed” ranging from 80% up to 95% of the costs to the AHB. As CAS was (and still is for special cases) currently 100% funded by the State, the primary issues for the AHB were process and cash flow. AHBs were required to fund booking deposits and contract deposits. These were both refundable but where volumes were high this could be significant.

A second initiative, the Capital Loan and Subsidy Scheme CLSS (originally the Rental Subsidy Scheme) operated between 1991 and 2011. It provided 100% capital funding for AHBs to assist in the provision of self-contained rented accommodation for low-income households in need of housing. The scheme worked by the provision of a 100% non-repayable loan from local authorities to AHBs. The local authority borrowed the money from the HFA to fund the loan and recouped the cost from the DHPLG. A management and maintenance allowance was also paid to the housing association on a yearly basis under this scheme.

At the onset of the financial crisis in 2008 caused a rapid contraction of capital budgets and forced a rapid transition to revenue-funded models of housing provision. This in turn brought about a need for Approved Housing Bodies to source capital from other suppliers and to taking on levels of debt that they had not hitherto considered. The AHB sector had to get to grips with a very new skillset, and to take on some new stakeholders such as financial institutions who in turn were not always familiar with funding mechanisms and procedures for social housing finance. As discussed in Chapter 3, the Housing Policy Statement of 2011 placed AHBs firmly at the centre of social housing provision, while the Social Housing Strategy of 2014 set a goal of providing some 35,000 new social housing units via local authorities and AHBs through construction, acquisition and leasing (DECLG, 2014). *Rebuilding Ireland*, the 2016 strategy for housing across all sectors increased these social housing targets further to 47,000. This has set a strong challenge for the sector. A range of new financing options from quasi-governmental sources together with unprecedented cheap debt in the general market and a demonstrable demand for new units has widened the financing options available.

Thus, the sector has had to make a step change in the culture and scale of their operations and ambition. Government also decided that to build confidence and capacity in the sector that AHBs needed to be properly regulated. Preliminary to statutory regulation, the Government established an interim regulatory structure to raise standards in the sector, to ensure robust governance, and to give some comfort to funders and lenders as to the strength of the organisations. This has been done in a tiered fashion, so that those small organisations without growth ambitions can have a lower regulatory standard than larger organisations with significant development plans and which are subject to more rigorous regulation ((DHPLG), 2016).

The funding landscape for AHBs has moved from CAS and CLSS to one largely based on a combination of a capital subsidy via a soft loan of up to 30% from Government with the balance borrowed from the HFA or from banks. The borrowings taken on by the AHBs were serviced via a “Payment and Availability Agreement” (PAA) whereby local authorities contribute an annual amount for a term of 20 to 30 years of up to 92% of market rent. This income was supplemented by the tenants’ differential rent payments, in some cases a one-off payment for administration costs was made by Local Authorities to AHBs. The payments made by Local authorities to AHBs under this scheme were reimbursed by DHPLG. The payment was indexed

to the CPI rent index. This often meant that an AHB operating a unit under the PAA regime could receive an income at above market rates (NESC, 2014).

- a) The soft loan finance is provided via a DHPCLG loan, called the Capital Advance Leasing Facility (CALF). This scheme operates by the DHPLG advancing an unsecured long-term loan of up to 30% of the value of a project at a rolled-up 2% per annum at simple interest. This loan is subordinated to the main loan referred to in b) below
- b) The balance of the acquisition costs is funded by either a HFA or commercial bank loan, and the CALF loan does not become repayable until that loan is repaid.
- c) The AHB simultaneously enters into a PAA Agreement whereby it will receive a payment from the State, provided it keeps the unit available for social housing for a period of 20 to 30 years. This is not an arduous condition and the PAA is effectively a State lease on the property for the duration of the loan. The payment is up to 92% of market rent indexed regularly. Therefore, based on a rental value €6,000 pa, the rent received by the AHB is €5,520. This is used by the AHB firstly to service the debt, including amortisation on the borrowed capital, and secondly as security for that debt to the lending institution. The debt service calculation under the same assumptions but with interest and amortisation at 6% per annum is illustrated in Table 4.8.

Table 4.8 CALF/PAA debt illustration

HFA or Bank debt-25-year loan	€70,000
Interest and Amortisation	€4,200
Payment to AHB by government	€5,520
Surplus to AHB	€1,320
Differential Rent paid by occupying tenant to AHB	€2,000
Net Income to AHB to pay operating costs	€3,320

At face value this is a very good deal for the AHBs at current interest rates, as in addition to giving an initial cashflow surplus, the PAA income is indexed whereas the HFA loan terms are generally fixed for 20 or 25 years. Thus, outgoings on HFA loans are fixed and the PAA revenue will move with rent inflation. The property will become debt- and rent-free at the loan expiry date subject only to the outstanding CALF loan. However, of the three-main funding models, the CALF/PAA model has the highest number of variables which increases the potential risks for an AHB whilst at the same time generally generating a surplus cash flow. The three variables with the most potential impact are (i) changes in interest rates on borrowings, (ii) property rent levels and (iii) inflation assumptions. These currently look benign

but circumstances could change, and the impact of such changes are considered further later in this section. Other key variables include bad debts, service charges payable, property maintenance, the proportion of CALF funding in the deal and the terms of the arrangement. The DHPCLG will look to only approve schemes that have an IRR of circa 7%. The two mechanisms the Department can approve/influence are the term of the PAA agreement and the percentage of CALF approved.

Most AHBs have little commercial borrowing experience. Currently, the HFA have access to EIB funding at a currently low fixed interest rate of 3.25% including amortisation. This is significantly lower than rates currently available from the commercial banks. However, from a State viewpoint, it has the disadvantage of being on-balance-sheet for government accounting purposes. As the borrowings are long term for 20/30 years and on the balance sheet of the AHB, this is a major change for the Boards of AHBs who formerly received all capital funding from the state on a non-risk basis. Thus, the AHB in arranging a loan has several issues to consider namely the length of loan, interest rate, whether to fix the interest rate or have it variable and to manage through the often-complex terms and conditions sought by the lender including what security to provide and what covenants to agree to.

Interest rates in Ireland and Europe are currently at historically low levels, due to the prolonged policy of quantitative easing. Borrowing rates at 3.25% including amortisation over 25 years would have been unimaginable before the crash. On the basis that such low rates cannot continue in the long term, any prudent board will be considering the impact of higher rates on their business model. The impact of changes to the total cash flow for each shift of interest rates of 1% is significant and is illustrated in Table 4.9 which is for an actual project carried out by Focus Ireland in 2017 in respect of a 29-unit scheme in Dublin. As will be seen, this scheme remained viable with interest rates from 3.25% up to somewhat over 6.25% but became unviable if interest rates moved to 7.5%.

Table 4.9 Impact of interest rate increase on cash flow

	HFA	BOI			
	3.25%	4.25%	5.25%	6.25%	7.25%
	Cashflow	Cashflow	Cashflow	Cashflow	Cashflow
Cash Inflow					
Net Differential Rental Income	61,944	61,944	61,944	61,944	61,944
Net Availability Payment (PAA)	343,705	343,705	343,705	343,705	343,705
Surplus transferred to General Reserves	0	0	0	0	0
Technical / Set up Costs Grant	0	0	0	0	0
Total Cash Inflow	405,649	405,649	405,649	405,649	405,649
Cash Outflow					
Set up Costs	0	0	0	0	0
Management & Maintenance Costs	48,045	48,045	48,045	48,045	48,045
Sinking Fund / Life Cycle Costs	0	0	0	0	0
Designated Reserves (Sinking Fund)	0	0	0	0	0
Debt Service Costs (Capital plus Interest)	206,638	230,001	254,592	280,331	307,132
DoEHLG Soft Loan Repayment	52,500	52,500	52,500	52,500	52,500
Total Cash Outflow	307,183	330,546	355,137	380,876	407,677
Net Cash Inflow / (Outflow)	98,466	75,103	50,512	24,773	(2,028)

Rising rents and a steady low level of inflation can be good for profitability of AHBs. The rent index used for the PAA purposes is the CSO rent index. Over the last 30 years, property inflation has broadly tracked CPI. There have, of course, been significant peaks and troughs over shorter cycles within the 30 years. Rent reviews under PAA terms can be triggered between three and seven years. Inflation significantly impacts the PAA values, especially if borrowing interest rates are fixed.

Table 4.10 shows a sensitivity analysis of three inflation rates on the NPV of a proposed housing acquisition. The calculation is based on a 25-year investment period with an initial PAA contract payment of €31,650 pa and a zero to 3% inflation rate over 25 years but with no inflation in years one and two. At the higher rate of inflation, the PAA rises to €39,029 pa whilst debt service costs remain fixed, giving a surplus at the end of the period, ranging from €18,277 to €69,761 having repaid the CALF loan of €18,546. Rents in most parts of Ireland have increased significantly over the past five years (Section 4.3.2) and this has benefited PAA

arrangements enormously. At 2011 rent levels, the PAA payment would barely have covered the debt servicing cost. Indeed, in locations with low rent levels, it is doubtful if a PAA agreement would be sufficient to cover development cost of new units even at 2018 rent levels.

Table 4.10 Inflation sensitivity analysis

Annual Inflation Years 1 - 5	0.00%	0.00%	0.00%
Annual Inflation Years 6 - 25	0.00%	2.00%	3.00%
	NPV	NPV	NPV
Cash Inflow			
Net Rental Income	31,650	36,272	39,029
net Availability Payment	167,999	200,592	220,519
			0
Technical/Set up Costs Grant	0	0	0
Total Cash Inflow	199,649	236,864	259,548
Cash outflow			
Set up Costs	0	0	0
Management & Maintenance Costs	22,826	28,029	31,241
Debt Service Costs (Capital plus Interest)	140,000	140,000	140,000
DECLG CALF Loan Repayment	18,546	18,546	18,546
Total Cash Outflow	181,372	186,575	189,788
Net Cash Inflow/(Outflow)	18,277	50,289	69,761

The change in approach to funding AHBs moves the sector much closer to being property investment businesses rather than simple charities. Property investment is about managing property portfolios and income streams, borrowings, building development and making judgment calls on inflation, rents and interest rates. These are mostly new skills for AHBs requiring management and boards to have a commercial or semi-commercial mindset. There are numerous risks associated with commercial borrowing which both the CAS and leasing methods insulated AHBs from. Having funding available from the HFA is some way towards the reality of commercial borrowing, but the fact that this debt is on AHBs' balance sheets must mean that the availability of this funding source will be constrained over time. However, in the present market disequilibrium where the Irish State cannot access social housing stock at the requisite levels to meet demand, it is unlikely to restrict HFA finance or to make the PAA arrangements unworkable. Nonetheless with pressures on public sector spending and the

stringent financial management required to remain within EU economic governance rules, new sources of finance are increasingly required to fund the provision of social/affordable housing. Such finance will need to be drawn from the private sector in ways that keep it off the state balance sheet.

So far, this section has looked mainly at an ownership-based model whereby the AHBs purchased properties paid for directly or indirectly with capital or revenue provided by the state. The PAA agreement is equally capable of being used by AHBs to lease housing from the private sector provided the investors accept (a) the rent discounts of 8% from market levels, (b) a rent indexed to CPI, and (c) that the AHB can manage the property for the differential rent received from the occupier. From an investor perspective, the RAS choice is to accept a longer lease and a more secure payee in return for a small rent discount. The fact that the RAS scheme has provided 20,000 units for social housing tenants demonstrates that this proposition is attractive. However, whilst the RAS scheme may be attractive to investors and to provide social housing it is not as attractive to AHBs as the purchase model. It may lead to a situation that AHBs will opt out of the RAS approach and property investors may have to take over some of the tenant social service element of such housing now provided by AHBs and local authorities. Alternatively, AHBs may provide this tenancy support for a fee either from the state or to institutional investors.

Institutional equity investment in housing is theoretically a good fit. Residential rents tend to move in line with wages with long-term liabilities matched to investment time horizons. Furthermore, returns from such property investment move in different cycles to bonds, bank borrowing terms and equities and so help to provide a steady income stream (BSHF, 2012) where investors will be focused on the long-term value of the properties and will expect values to follow the general property value trajectory over the long term.

In proposing an institutional approach to the delivery of affordable housing, the McKinsey Global Institute identified four key elements namely: unlocking land at the right location, reducing construction costs, increasing operations and maintenance efficiency, and reducing financing costs for buyers and developers (McKinsey, 2014). The Fund proposed in this thesis, as further developed in Chapter 7 adopts these levers. The constrained capital situation in Ireland emphasises the importance of the first of these levers in using public sector owned land to reduce the cost of housing. The proposed Fund, as an anticipated bulk supplier of housing, is designed to reduce costs through innovative approaches to construction and to value

engineering (McKinsey's second lever). These types of efficiencies can best be captured in high-volume projects of the type the Fund envisages. Taken with the land element, the proposed Fund could also mitigate the expense associated with public procurement procedures, by using best-practice private sector techniques to drive down cost. The third lever, increased efficiencies in operation and maintenance, also chimes perfectly with the proposed Fund as the operator will be a professional housing manager with key skills in low-income housing. Fourthly, the public-private structure of the proposed Fund with Government guarantee potentially has the capacity to drive down the cost of funding by reducing the risk to investors.

4.7 Conclusion

This chapter has illustrated that demand-side drivers in the Irish housing are strong underpinned by currently strong macroeconomic fundamentals and the demographic structure which is impacting on house price growth, rental levels and affordability. These trends have placed further significant challenges for the delivery of social/affordable housing. In this respect, the chapter has focused upon current supply constraints induced by the legacy of the recession and the efforts to increase housing supply to meet demand. In respect of social housing the chapter assesses current and historic funding methods and points out that the Irish State has become capital constrained in relation to the funding of new social housing using traditional capital-based direct provision mechanisms and has been moving over time to leasing private sector property and funding this on its current account.

Whilst the AHB sector formerly received all its capital funding from the State and other public agencies, the sector is being forced to move to a revenue-based model by borrowing capital on balance sheet. Consequently, AHBs are being forced to think more like property companies and are having up-skill to operate in this new environment. The chapter concludes by suggesting a need for a new source of rental housing financing from institutions, in addition to the one-off landlord and which should provide significant additional rental housing, but which may conflict with the traditional charitable motivation of AHBs. Chapter 6 will argue that institutional equity funding offers the prospect of investment at scale and that such investment is well-suited to the development of a new long-term rental model in the residential sector to include social and affordable housing

In advancing the underlying rationale of the thesis, this chapter has shown how path-dependent processes have shaped the institutional framework that brought matters to a juncture where

further policy change and new financial models are needed to induce more social housing supply. This “critical juncture” points clearly to a need to produce new stock that can cater for a growing cohort of long-term rental housing.

The remainder of this thesis develops the argument for institutional equity investment in the social/affordable housing sectors. However, before exploring the proposed funding model in more detail, the next two chapters of the thesis consider the international experience and delivery models for social/affordable housing (Chapter 5) and the analyses investment criteria and characteristics essential to produce an institutional funding model for the development of social/affordable housing in Ireland (Chapter 6).

CHAPTER 5: INTERNATIONAL PERSPECTIVES ON SOCIAL/AFFORDABLE HOUSING DELIVERY MODELS

5.1 Introduction

This chapter examines the provision of housing for low-income households in six countries: Australia, England, France, Germany, the Netherlands, and Switzerland. These have been chosen to reflect the diversity of housing systems and their relevance to the subject matter in hand. The choice of exemplars was made on the basis that they offer a broad overview of social and affordable housing delivery systems in a developed world context. The chapter explores the social housing systems in each of the six countries and in particular the relationships between other tenure types, and the level of institutional interest in residential investment.

In considering the elements that might go to make up an institutionally funded vehicle for the delivery of social housing in Ireland, drawing upon international exemplars is important in informing best practice and in this context England, France, Germany, the Netherlands, and Switzerland provided useful points of comparison and contrast. Additionally, extensive work in Australia has been undertaken on attracting institutional investment into social and affordable housing. Given that the characteristics of the private rented sector, the non-profit housing sector, and the historical role of social housing in Australia all bear a striking comparison to Ireland, it was considered that Australia should also be included. Also, it is a country with a common-law tradition and an “Anglo-Saxon” political and cultural heritage that bears resemblance to Ireland in many respects. Hence the countries chosen are in various aspects instructive to the Irish situation.

From a theoretical perspective, Kemeny and Lowe (1998) characterise comparative housing studies in three broad groups. The first is juxtapositional analysis where descriptions of different housing systems are placed alongside each other without attempting to develop any theory-level explanation for the difference between them. The second sees all housing systems as broadly similar, or at least driven by the same forces, leading to a convergence across housing systems. Convergence theorists typically adopt a Marxist political economy approach that sees housing systems as moving in one direction, usually towards a market-based solution. The third approach is a divergence which sees housing regimes more in the context of the cultural and historical environment in which they have developed. The historical institutionalist (Chapter 2) framework theorises that systems in each country evolve according to particular

political, economic and financial circumstances providing a further reason to examine social/affordable housing regimes in other countries. Analysing comparative housing systems in other countries permits an understanding of the dynamic relationships between the market and the welfare state, a critical determinant of the type of housing support system. In this context, Chapter 5, a comparative perspective of social/affordable housing systems in six countries, addresses the fourth objective of the thesis in highlighting the extent to which private sector finance combined with institutional investment is being employed as a funding solution.

5.2 Australia

Approximately 67.2% of Australian households own their own home with or without a mortgage, 25.7% rent from private landlord, while just 3.6% are socially renting from a public housing authority. This represents a decline in public housing of about 35% in the past two decades. Unlike most European countries where some systems of housing support existed in the first half of the twentieth century, Australian “social” housing only emerged after the Second World War. Demographic pressures due to a rapidly expanding population and a collapse in housing production during the 1930s led to a need for additional accommodation. While some of the states of Australia had established bodies to address the housing shortage from the late 1930s, in 1943 the Commonwealth-State Housing Agreement (CSHA) led to long-term low-cost loans from the Federal Government to the states for the construction of low-income rental housing. Between 1945 and 1955, 100,000 units were constructed (almost 5% of the total housing stock). The CSHA loans were on terms of about 3% over 53 years, and rents were set on the basis of these costs plus maintenance (Hayward, 1996).

The longstanding Australian tenure pattern and policy preference is owner-occupation with private rental as the default option (Jacobs et al, 2010) with Government facilitating home ownership through a loans policy. For example, the Queensland Workers Homes Scheme in 1919 provided cheap State loans to eligible households with just 5% deposit required (Hayward, 1996). State banks also developed schemes and lent to households to buy a home. The pre-war history of Australian “public” housing is a state-supported owner-occupation regime, rather than “social” rental housing in the European sense. Historically, less emphasis was placed by the Australian Labour movement on housing than their European counterparts. Rather, wage policy was seen as the way to ensure good housing conditions through owner-occupation. Measures for social housing were generally seen as a response to need and circumstances rather than as a general function of the Australian State or as any ideological

commitment to generalist housing provision. Hayward (1996) cites problems and failures in state-supported ownership schemes and the chronic slum housing problem in major cities as reasons for turning towards public rental housing in the early 1940s. In the decades that followed, policy swung between more or less support for owner-occupation and public housing according to the economic climate and inclination of the government at the time.

The terms of the CSHA were amended in 1949 to permit the sale of dwellings, thus facilitating both a source of revenue for further housing development and furtherance of government policy in favour of owner-occupation. This meant rapid loss of public housing stock as almost 90,000 units were sold between 1945 and 1969. Certainly the rate of sale generally exceeded the rate of construction. Rent policy also changed in certain states in the 1960s away from the historic cost basis to a rent based approach on the type of dwelling and number of rooms, thus breaking the link with the cost of provision of the dwelling. Rents were also generally unrelated to income. Households whose circumstances had improved since being allocated their home were not penalised in rent terms for their increased income. The logic of this was to discourage the residualisation of public housing that occurred elsewhere when better-off households moved on. However, Hayward (1996) notes that public housing schemes were generally modest, poorly maintained, and with few amenities and services.

It appears that while allocation policies varied from ballot systems to more nuanced needs-based approaches, the fundamental approach to public housing in Australia was that it should be just adequate, and it was not seen as something that should become desirable tenure choice. In any event, Australian public housing is heavily residualised, as a result of circumstances and policy choices since the 1970s, with the shift from “public housing to welfare housing” complete by the mid-1980s (Jacobs et al, 2010). In the 1990s, there was a new emphasis put on “community housing” (Darcy, 1999). The Australian not-for-profit housing sector is relatively small, managing around 46,000 units, about an eighth of all Australian social housing in 2010. Gilmour and Milligan (2012) describe a sector that is very fragmented, made up of 959 organisations, usually managing less than 50 units and with bank borrowing or property development capacity. However, a small cohort of 45 associations manages 63% of the stock, and has the capacity to grow using State supply-side supports. The NRAS (National Rental Affordability Scheme) scheme, introduced in 2008, was an AU\$4 billion scheme to provide tax incentives and grants to private investors and not-for-profit bodies respectively for the provision of low-income housing. Housing funded under the NRAS had to let at rents at least

20% below the market for a period of 10 years, after which they can be rented at the market rate or sold (Blessing, 2015). The general thrust of State and Federal government policy is to make a shift to the not-for-profit sector as the primary supplier of low-income housing, through a range of mechanisms from zoning requirements to preferential treatment in demand-side subsidies (Gilmour and Milligan, 2012). This shift from a wholly public system of housing provision to an increasing role for non-state actors also encompasses change from a residualised housing sector to one which attempts to accommodate households on modest incomes – affordable housing. A sizeable body of research has also been undertaken in Australia as to how institutional investment can be drawn into rental housing (e.g. Berry, 2000; Milligan et al, 2013; Pawson and Milligan, 2013; Lawson et al, 2014; Milligan et al, 2015).

Australia also has a system of demand-side subsidies (rent assistance) that enables low-income households to rent in the private sector. However, the Australian private rented sector has remained loosely regulated. Tenancy law varies slightly between the various states, but generally provides for fixed-term tenancies and periodic tenancies (indefinite, but based on week-to-week or month-to-month terms). Rents are set at market rates and provided due notice is given can be raised at intervals depending on the nature of the tenancy. There is generally a right of appeal to a tribunal or magistrate if the increase is felt “unfair”. Notice periods also vary according to the form of tenancy, but a landlord may generally serve notice to a tenant to “leave without ground”. In this respect, the Australian private rented sector is less regulated than Ireland, but more so than the UK.

The traditional role of the private rented sector was as a temporary housing solution for young households and as a transitional tenure but has grown in importance in recent years due to demographic, social and economic changes. Most investment is by small-scale investors (Hulse et al, 2012). Negative gearing is a significant factor in attracting investment to the sector, and has been controversial in Australia, especially in the context of rapidly escalating prices. Hulse et al observe that there is no incentive to invest in lower rent stock with the result that investment has gone to the higher end of the market with capital gain the key motivation for investors rather than yield.

Path dependencies within the Australian housing regime appear to be weaker than those that pertain in some of the other countries under discussion here. The strongly residualised character of the social housing tenure is a result of a strong policy preference for owner-occupation and in common with the other liberal welfare regimes there were large scale disposals of public

housing to occupiers. Fitzpatrick and Pawson (2014) reviewing the changing role of social housing in Australia and the UK since the 1970s note the same residualizing process in both countries. Despite this, the relatively small scale and historic residual character of the tenure in Australia would appear to permit greater latitude in bringing about institutional change. Moreover, the relatively late development of the social housing sector in Australia and its historically residual role mean that it is less embedded than might be the case where the institutional framework is stronger.

Blessing (2015) points out that whereas homeownership was by far the dominant tenure type for many decades, there was a 400% increase in house prices in the two decades previously which pushed owner-occupation out reach of many. Together with a dearth of affordable accommodation in the private sector, government began to actively seek solutions – especially institutional investment in affordable rental housing. Research by Milligan et al (2013), Milligan et al (2015) and Newell et al (2015) as to how to induce investment in housing from institutions concluded that the key factors in achieving that goal were to design the right product, achieve scale, achieve mixed tenure for investment purposes with a reasonable degree of diversity in the property portfolio. They also stress the policy environment as being critical to convincing institutions of the longevity and stability of the investment. Lastly, they suggest that active government support may be required to “pump prime” such institutional investment.

5.3 England

English social housing has always had certain key differences with the system in Ireland. Ireland had a higher degree of public subsidy and municipal involvement in housing in the late nineteenth and early twentieth century. Post-independence in Ireland (Chapter 3), the systems diverged further, most particularly with the provision of mass public housing by English local authorities to the point where 31% of the housing stock was composed of housing of this nature in 1979, compared with a falling proportion of Irish households living in social housing from the early 1960s. By 2014, just over 17% of English households lived in social housing. However, England is particularly interesting because of the relatively rapid expansion of the housing association sector from 1979 to the present. At the beginning of that period 93% of social housing was owned by local authorities. By 2014, that number had fallen to 41% with housing associations (more properly described as registered social landlords) making up the balance (DCLG, 2015).

Policy since the 1980s has facilitated a reducing role for local authorities in housing ownership and management. This has come through large-scale transfers of housing stock from councils to housing associations, and the creation of large ALMOs (arm's length management organisations) to manage local authority housing. This process of transfer was facilitated by tenant choice clauses in the Housing Act 1988. More than 1.3 million homes changed from the local authority sector to housing associations in the following 20 years (Pawson, 2006). With the ability to borrow and with substantial balance sheets based on transferred stock, the housing association sector grew rapidly, acquiring in the process much commercial acumen and expertise in finance and treasury functions which, together with a strong regulatory regime enabled it to develop capacity to access both bank debt and more latterly capital market funding. However, the sector has also diversified from its original core mission of providing low-income housing. Housing associations have moved into ancillary activities as diverse as wind-farms and leisure centres, while others have widened their housing remit into more commercial activities. Throughout this time, limited grant funding was available for social housing. In 2010, this was reduced by more than half to 14% and instead funding was channelled into a new class of "affordable" housing where providers could charge up to 80% of market rent. According to Blessing (2015), limited-term tenures in contrast to indefinite terms are vital to balance sheets of affordable housing schemes, and their viability depends on revenues secured from sales of mature stock. Crucially, housing associations can (with local authority agreement) convert social stock to affordable, but the ever-tightening government funding environment is making it imperative that housing associations make such conversions.

The English exemplar is particularly interesting in that it represents a system that has been traditionally funded from government, but where now construction and development of social housing is mostly financed by the private sector. While this was originally for the most part bank finance, as the housing association sector has grown and matured, it has accessed capital markets in the form of bonds and private placements for further investment. Limited government capital grants are still available, but the long-term shift away from mass provision of secure "council" housing for traditional working-class households is continuing with a new increased emphasis on "affordable" housing where rents up to 80% of the market rate in the area can be charged. This obviously has profound implications for the nature of the households who are able to access such households in the first place, but also for the permanence and security offered by that accommodation.

While capital grant funding is at a much lower level, the loans are remunerated via demand-side housing benefit payments totalled £24.6 billion (for the entire UK) in 2013–2014. More recently, caps on social rent increases are likely to further squeeze the housing association sector and promote diversification into affordable housing. Typically, social rents are around 40–60% of market rents. Rent policy has been going through a period of great uncertainty with consequent knock-on effects for the ability of the sector to repay debt and to embark on further development projects. Rent convergence as between local authority and housing association tenancies was an objective of government policy from 2002–2015. This was achieved by the adoption of a formula rent based on incomes in the area and property values giving certainty to landlords regarding rent increases. In 2015 however, the government announced a 1% reduction in social rents for four years, meaning a 12% average reduction in rent and a £1.4 billion saving, mostly in housing benefit (Wilson, 2015).

From a situation where England had brought into being a relatively strong and enterprising social housing sector outside the formal government sphere, it would appear that recent policy changes could destabilise that sector and hamper future development efforts. Bringing institutional investment to the private rental market in general has been a goal of English housing policy (DCLG, 2012). One area where institutions have provided finance – albeit through debt – has been in social housing. The strong regulatory structure, together with the track record of the sector and government backing means that the sector has been attractive both to bank lenders and to capital markets. England’s private rented sector is one of the least regulated in Europe with relatively free bargaining power between landlord and tenant, free market rents, and little security of tenure. It is a sector that is growing in importance as fewer and fewer households find themselves able to access owner-occupation. In common with Ireland and Australia, private renting has traditionally been a transitional or residual tenure, with low levels of long-term, secure tenancy patterns. Some institutional investment has come in recently to the sector, but at a low level. In this context, Crook and Kemp (2000) and Jones (2007) examined the possibilities for institutional investment in rental housing through the respective prism of Housing Investment Trusts and more latterly REITs. There is also a plethora of reports from official sources and NGOs on the issue of funding large-scale rental housing from institutional sources (IPF, 2015).

5.4 France

The origins of social housing in France go back to the early twentieth century when philanthropic and workforce housing was provided privately. As observed by Lèvy Vroelant et al (2014), while the political and regulatory framework was put in place before WWII, it was in the post-war period that the stock really grew, with exponential growth from the late 1950s up to the early 1970s. In 1977, a long-term programme of reduction in supply-side subsidies in favour of demand-side measures began (Peppercorn and Taffin, undated). Political unrest in large urban housing estates in the early 1980s led to a revisiting of policy towards increased investment in housing. Broadly, France can be seen as part of the corporatist-statist group of welfare states identified by Esping-Andersen (1990). First, it offers a stratified type of housing support according to income, and second it acknowledges a “right” to housing. The path dependencies in the French system appear to be connected to its embedding in political discourse and action. Nonetheless, the macro-level trend is similar to the other countries under consideration in moving emphasis to demand-side supports and market facilitation mechanisms rather than more statist and dirigiste solutions than in the past.

Social housing in France is described as *Habitation à Loyer Modéré* (HLM) (literally moderated rent housing), and bodies supplying such housing are generally termed HLMs. The system is financed through a number of channels, the principal of which is a State savings scheme, the Livret A. Households can save through a tax-free account with a regulated interest rate. The funds are then lent onwards by the Caisse des Dépôts et Consignations (CDC) who pay a fee to banks for running the individual accounts and collecting the money. The CDC manages approximately €220 billion and lends around €6–12 billion annually. Approximately, three quarters of social housing is financed by these loans. Equity generally makes up a further 10% and the balance is derived from central and local government grants at varying levels depending on the target cohort, and the employers’ housing fund (1% logement). Interest rates on Livret A deposits are currently at 0.75%, and loans are provided at between 20 basis points below this rate for dwellings for the poorest households up to 1.5% over the rate for intermediate renters. Cahill (2014) reports an average long-term interest rate of 3.35%. Loans are provided over very long periods of 40 or even 50 years. In addition, a lower rate of 5% VAT applies on construction by social housing developers. On almost all schemes, there is a 25- year exemption from property and land taxes – the exception being new-build intermediate rental schemes. Guarantees are generally available from local authorities for social housing,

but HLMs can also pay 2% to a guarantee scheme, the Caisse de Garantie du Logement Locatif Sociale (CGLLS). Some higher standard social housing and intermediate renting schemes are open to non HLM investors who can avail of cheaper loan finance and certain tax breaks in return for meeting conditions as to the level of rent and income of the tenants (Hoekstra, 2013).

The HLMs themselves are non-profit bodies that vary in nature from public to private organisations but are in all cases required to reinvest surpluses into further social housing development, and have very limited ability to pay dividends. French social housing is generalist in nature: it is aimed at very low to moderate income households under various schemes. Table 5.1 describes the income ceilings to qualify for social housing under each scheme and the maximum rent that may be charged. The upper levels of income and rent relate to central Paris with a banded system for the area around the capital, and for other regions in the country.

Table 5.1 Income ceilings for social housing under different schemes in France (source Circulaire, Avis Loyers 2015 (French Housing Ministry Circular); www.service-public.fr; www.actionlogement.fr)

	<i>Rent support is tapered by income level under four schemes</i>			
1-person household	PLAI (low income)	PLUS	PLS	PLI (mid-income)
Income range	€1,060–€2,725	€20,111–€23,132	€26,144–€30,072	€28,155–€41,638
Rent range psm/month	€4.56–€5.97	€5.14–€6.70	€7.71–€13.07	€8.74–16.82

Thus, social housing in France encompasses a range of household types and incomes, from an intermediate tenure to accommodation for the very poorest households. The HLM sector accounts for around 4.5 million dwellings in France, approximately, 17% of the overall stock (Cahill, 2014). Despite this, approximately 35% of households in HLM accommodation were below the poverty line in 2011 (Pittini and Laina, 2012). Rents are linked to the original cost and financing of the dwelling, so the cheaper loans, long terms, and subsidies produce lower rents, but rents in new buildings will be higher. If tenants cannot pay the rent required, housing allowances are available at an average of €15 per month.

The French system is unique in using the State savings Livret A as the main source of funding for social housing. In broad terms, it can be seen as a cost rental model where higher levels of State support go to produce housing for lower income households while also providing a

stratified system of support for middle earners down to poor households. At approximately 17%, the proportion of the overall stock in social housing is relatively high, with only the Netherlands, Sweden, the UK and Denmark having a higher level. The system of low-income housing in France has the advantage of being off balance-sheet as most of the funding through Livret A is privately sourced through personal savings. The Livret A, as mentioned above, is a tax-free savings product offered to French households and administered by the CDC for onward lending to HLMs. Thus, France is less exposed to cyclical patterns of provision compared to other countries. Indeed, Lèvv-Vroelant et al (2014) observe that social housing played a counter-cyclical role in the recent financial crisis with rising levels of output off-setting the sharp dip in private sector construction activity.

In France, there is an active debate about whether sales of stock in low demand areas could be used to provide new housing where there is a need reflecting different positions as to whether France should continue with its strong policy of generalist housing provision or move to a more residualised model to meet the needs of growing numbers of low-income households. Current HLM regulatory structures neither permit stock transfer to institutional investors nor enable such investors to attain the yield they would require (IPF, 2015). However, there are nascent signs of the potential for institutional investment in this sector. CDC, through one of its constituents, Société Nationale Immobilière (SNI), manages around 275,000 social and intermediate rental dwellings, has established a fund with institutional investors to develop 10,000 intermediate units at a net yield of 3.5% and an IRR of 7% on disposal of the units after 20 years. The development model proposes mixed communities of approximately 75% intermediate and 25% social rented units. The development and construction risk is eliminated, as the Fund will only acquire units from developers who are selected on a competitive basis (IPF, 2015). This model closely mirrors the DADF concept which is the subject of this thesis.

5.5 Germany

The German system of low-income housing provision is unique in Europe. In contrast to most countries where housing is either directly provided by government agencies or by not-for-profit housing association type bodies, in Germany the divide between market and non-market housing is much narrower. Housing is devolved to the Länder, so there is no national system of provision. Accordingly, “social housing” in Germany refers to dwellings constructed under certain State-supported schemes.

Perhaps the most apt typology is that adopted by Droste and Knorr-Siedow (2014) where they describe *de jure*, *de facto* and virtual social housing. In this categorisation, *de jure* social housing encompasses units constructed under the various subsidy schemes that the State has operated from the second half of the twentieth century. These are generally temporary in nature and revert to the market when the subsidy period expires. *De facto* social housing is former *de jure* social housing operated by non-profit bodies, co-operatives or municipal housing companies who provide housing at below-market rents, while virtual social housing describes a housing allowance payment (*wohngeldgesetz*) to assist households to rent in the private rented market.

In general, certain subsidies or cheap loans are available to landlords irrespective of their status (private, not-for-profit), and dwellings provided under these measures are deemed “social” housing. An important characteristic of this housing type is that it is temporary in nature. The concessions are accorded to the property for a period of time in return for certain rent limits and allocation provisions. However, on expiry of the subsidy period, typically 15 years (Cornelius and Rzeznik, 2014) but up to 30 years (Droste and Knorr-Siedow, 2014), the property reverts to normal market housing. However, Pittini and Laina (2012) report that many municipal housing companies will continue to operate the units as *de facto* social housing, social housing, generally operated by municipalities. This is estimated to make up around one million dwellings (Droste and Knorr-Siedow, 2014). There are also approximately a million households supported by a housing allowance payment to rent housing in the private rented market.

Formal German social housing, therefore, appears as a very low percentage (3.4%) of the overall housing stock, and only 7.5% of the total rented stock (CECODHAS, 2013).¹ That proportion is falling. In 2013, approximately 100,000 units exited the sector while only 30–40,000 new units were produced (CECODHAS, 2013). Moreover, most of the activity in subsidised rental housing is coming from municipal housing companies rather than commercial companies (IPF, 2015). As returns from subsidised housing are below those from private renting, institutional investors have by and large eschewed the sector as either a direct or indirect investment (IPF, 2015). However, very substantial holdings of former public housing have been transferred to the private sector, facilitating the development of a large corporate-

¹ CECODHAS, now renamed Housing Europe is the European-level representative body for social housing providers.

owned tranche of country's rental housing. Between 1999 and 2011, 917,000 units of public housing were sold by municipal or federal companies. Some of these were disposed of to two investment groups with some conditions as to the protection of tenants (BBSR, 2012).

The effects of this privatisation of public housing portfolios were profound. German institutional investors were not attracted to the social and low-profit housing with the result that it was private equity and international institutions who purchased the properties. This led to a sharply stratified approach by new purchasers who sold off the best of the property, holding and maintaining an additional middle tranche while the poorest quality was run down further and became residualised, and the former integrated nature of the estates was lost (Elsinga *et al*, 2014).

In terms of institutional investment, some caution is needed in German terms. Fitzsimons (2014) outlines institutional investors as municipal housing companies, cooperatives, private housing companies, public housing companies, church housing companies and "other" housing companies. REIT activity in German housing is at a very low level (Fitzsimons 2014); in fact German REITs are prohibited from holding existing residential real estate. However, there are some very large listed German landlord companies. Publicly listed apartment landlords hold portfolios worth around €155 billion (*Financial Times*, 2015). The market view of residential property appears to be as a very safe and stable investment. The availability of stock at scale has also proved attractive to large-scale investors who have been able to reduce transaction and management costs through acquisition of housing operators. Fitzsimons (2014) reports that as pension funds begin to pay out to their members, residential investment offers a good diversification pathway away from bonds, and accordingly are seeking to allocate more to the private rented sector. The stability and security of the income flows and capital growth are the key attractions.

However, the German private rented sector is heavily regulated with strong protections for sitting tenants and a sophisticated rent control system. Thus, the private sector may not be as insecure and unaffordable as it might be in freer market systems. Private rent increases in Germany are based on local rents for similar dwellings, and an index of local rents, based on hedonic regression is produced (the *mietspiegel*). As the *mietspiegel* is based on the previous four years rent, the potential for sharp rises is somewhat mitigated, and there is a maximum of 20% uplift in rent permitted in a three-year period. German rent increases for sitting tenants therefore are to a high degree insulated from sharp spikes in the market.

Within the definition of “institutional” investment in this thesis, we can include the larger German publicly listed companies who hold large volume of rental housing with one example being Vonovia and Deutsche Wohnen. Approximately 17% of German private rented stock is held by such investors. Approximately 60% is held by individual investors, though in holdings that are typically larger than would pertain in Ireland (at between six and 45 units) (Fitzpatrick, 2014). However, such companies are not generally engaged in the development of subsidised (social) housing.

In recognition of the long-term decline of social housing in Germany, some cities have introduced measures to bring about mixed social and private developments, for example the sub-market sale of land and mandating the construction of social housing as a condition of consent for high-rent units (Droste and Knorr-Siedow, 2014). An example provided by CECOHDAS (2013), outlines a public loan in respect of just under 25% of the cost of a project with equity and bank loans making up the balance. The public loan is interest free for 10 years and 2% from Years 11–16 when it reverts to market rates, but should by then be paid off.

The German strategy of privatisation has proved problematic. Most significantly, it did not achieve the benefits of the reduced burden on the public sector, as rent increases and loss of *de facto* social housing resulted in rises in housing allowance payments (Elsinga *et al*, 2014). Importantly, it was *de jure* social housing that was most resistant to the strategies of the new owners – in other words the State “lock-in” of certain low-rent conditions was more successful than other strategies, though there has been ongoing controversy over the social obligations of the new owners. In tandem with the residualisation of some stock as a result of privatisation, there is now a general recognition of a long-term structural problem in supply (BBSR, 2012a) of low-income housing. Moreover, a longstanding equilibrium in German housing markets appears to have been undermined.

“As German institutional investors showed limited interest in social or other low-profit housing, public sellers turned to international institutional investors, including pension funds and hedge funds. With a limited grasp of the historically established balance between prices and rent legislation, these investors considered German housing to be under-priced. They expected a move away from the traditional ‘hold and manage’ strategy (with annual returns of 4–6%) towards a speculative profit orientation, promising their

shareholders returns of 20% or more per annum” (Elsinga, Stephens, and Knorr-Siedow, 2014).

5.6 The Netherlands

Social housing makes up a greater proportion of the housing stock in the Netherlands than in any other European country. Housing associations own 32% of the total housing stock, while a further 9% is in the private rented sector (Elsinga and Wassenberg, 2014). The Dutch model is generalist in nature, and is mandated to provide housing for a wide section of the population. The founding Housing Act of 1901 and subsequent amendments obliges housing associations, to provide for households who are unable to find appropriate housing. Originating in the latter half of the nineteenth century the housing association movement had access to government loans and subsidies that enabled it to build up its stock. A core reason for the development of such a large housing sector was a strong government commitment to public housing. Post-second world war reconstruction gave fresh impetus to construction activity in the housing sector (Boelhouwer, 2003; Elsinga and Wassenberg, 2014).

A White Paper in 1989 (“Nota Heerma”) signalled a shift in policy towards greater autonomy for the social housing sector. This initiative also circumscribed more closely the groups eligible for social housing, and began to break down the generalist nature of Dutch social housing. This signalled significant shifts in the regulatory and financial environment for social housing. In the years since 1989, the Dutch housing associations effectively became almost entirely financially independent of government for capital and new development purposes. The last vestige of government support for the sector is a backstop provision on housing association loans via the *waarborgsfonds sociale woningbouw* guarantee fund (WSW). This fund operates through a contribution from the sector in the first instance, which means the housing associations are mutually guaranteed.

In 1995, the Dutch Government cancelled the sector’s debt but also removed subsidies to the sector. This was termed the “grossing and balancing” exercise (*brutering*). Under this process – a transaction amounting to some €16 billion – all the debt owed to the state by the housing associations was set off against the subsidies the State would be liable to pay to the social housing sector. In this way, the social housing associations were made almost completely independent of the State (Aedes, 2013).

In 2010, the government introduced a tax on housing associations targeted at moving social rents towards market levels for those who could afford them, and facilitating housing allowance as the main affordability instrument. Additionally, Dutch housing associations were made to pay a further levy in 2013, following the disastrous failure of the large housing association, *Vestia*. The levy is paid to the *central fonds volkshuisvesting* (central social housing fund, CFV) which acts as regulator of the sector and as a further sector-funded guarantee for housing associations in distress. Accordingly, Dutch social housing is funded by a “triple-lock” guarantee system whereby the WSW, CFV and government ensure lenders’ funds, and accordingly produce good ratings and low cost of borrowing.

Housing associations had also relied on sales of units as well as rental as a source of income. The generalist nature of the service provision and the relatively small size of the private rented sector meant that historically there has been no stigma attaching to social housing, nor has there been any spatial segregation.

Dutch residential rents are regulated and determined by the quality of the dwelling rather than the income of the household (Elsinga and Wassenberg, 2014). However, the long-term strategy of Government is to allow rents to rise towards market levels and to use housing allowances to improve affordability. The income limit to qualify for those allowances for a single-person household under 65 is €28,000 (CECOHDAS, 2013). A new levy on housing associations has been facilitated by permitting larger rent increases, meaning that rents in housing association dwellings are being pushed up with a view to getting closer to market rates.

A full picture of the Dutch housing sector is not complete without a consideration of the effect of EU State Aid Rules. In 2005, Dutch private sector housing companies expressed concern to the EU Commission that housing associations were unfairly competing with them in expanding commercial house-building using State aid. State support for social housing is of course permitted by the EU as a service of general economic interest (SGEI) (European Commission, 2009). However, it must not impede competition with the commercial sector. The Commission and the Dutch government agreed in 2009 to a new settlement whereby “social” housing was to be targeted at an income threshold of €33,000 maximum. Thus, the system could be said to have moved from a generalist to a targeted one. This also meant that housing association stock had to be divided into SGEI and non-SGEI stock. Housing associations are now obliged to offer 90% of their stock to applicants within a specified the income threshold (€34,085) (as of 2017). The housing association sector has been under ongoing political pressure due to its

perceived scale and wealth, governance issues and that some households on higher incomes were availing of low rents. The thrust of reform has been to level the playing field with the private sector and to move away from the historic pattern of generalist provision.

In tandem with these measures which have had the effect of enhancing the attractiveness of investment in private rental, the Government has also moved to create temporary tenancies which are more facilitative of the private sector. The Global Financial Crisis also had profound effects on mortgage availability in the Netherlands, further augmenting investment potential in the private rented sector. Changes to rules are also likely to see a growth in the number of properties given over to deregulated rents, and to the possibility of stock transfers to commercial actors (IFP, 2015). The strong creditworthiness of the sector has obviously made it attractive to lenders, and WSW report a small reduction in bank lending in 2013 with an increase in institutional funding (from 1.2% to 7.9%). The search for yield has forced institutional investors to look into new areas of which social housing presents one opportunity. For example, the Dutch Government in 2014 approved the disposal of a part of a portfolio of a failing housing association. Vestia, to a German private fund (Patrizia) with substantial institutional investors. Vestia, a very large housing association with over 80,000 units in its portfolio, found itself in deep financial trouble due to over-exposure to derivatives in a failed interest rate hedge strategy. As a result, the entity was forced to sell 5,500 units of its stock, which was purchased by Patrizia.

The funding environment for non-SGEI stock is more uncertain, as the guarantee element is not present, and the attraction of the sector comes from its relative security, stability and, by implication, its insulation from market risks. Institutional investment in rental housing has a long history in the Netherlands, comprising about 50% of institutional property portfolios. About 40% of the private rented sector proper is owned by institutional investors, largely targeted at higher income groups and the elderly. Bearing in mind that housing associations are actively involved in market housing, and routinely sell and trade stock both individually and in bulk, it is possible that more integrated systems of provision between housing associations and private funders will emerge as new models are developed for private and social stock, and whether for SGEI stock, the loan guarantee structures remain in place.

As with other examples in this chapter and indeed with many housing systems around the world, Dutch social housing is in a state of flux, and while the general direction of travel appears to be towards a system more closely aligned with the market, and with increasing use

of wholly privately provided housing, it is difficult to discern what will emerge. In common with other European countries, property values were adversely affected by the Global Financial Crisis and mortgage lending has been tightened significantly. The interest of large German institutionally backed funds in the Vestia/Patrizia case points to a way forward for housing associations wishing to raise capital for further investment and development. However, it would appear likely that the more rewarding opportunities for such investment are likely to lie with upper or middle-income rental housing (IPF, 2015) rather than the traditional social housing that the sector has been built on.

5.7 Switzerland

Little international research has been undertaken into Swiss housing policy, and social housing in particular. It has been included in this brief survey of six countries because of the very high rate of institutional investment in rental housing, and because many of the factors that would appear conducive to institutional holding of social housing assets are present in the Swiss housing regulatory framework. In housing terms, Switzerland has the highest proportion of households renting from private landlords in Europe, and one of the highest in the world at more than 60% of the population. Conversely, home-ownership rates are among the lowest in the developed world, as long-standing government policy has never sought to encourage the tenure by means of tax or other policy means. Lending practices have been stringent with a 20% deposit required and debt service costs capped at 30% of income. This meant that Swiss residential property did not experience the sharp fluctuations in price that were experienced in other advanced economies like the US, UK and Ireland. Also, among the reasons cited for low rates of owner-occupation in Switzerland are the high quality of rental property and high levels of tenant protection. As the non-profit housing is not residualised, and barriers to entry for middle-income households are low, the non-profit sector is attractive (Bourassa et al, 2010). Indeed, institutional investors own 28% of the Swiss rental market, with 10% owned by pension funds. (Bourassa et al, 2010) and housing is the most important institutional real estate asset class at 52% of institutional property holdings.

Social housing has largely been provided by indirect means through cheap loans, subsidies, and latterly via bond aggregation. The sector makes up about 7.5% of the total housing stock. Of this, more than half, 57% is owned by housing co-operatives, with the balance owned by other non-profit entities including municipal housing companies. There are approximately

1,500 non-profit housing bodies in Switzerland with most holding fewer than 100 dwellings, but with the larger entities managing up to 15,000 (Lawson, 2009).

Low-income housing has generally been provided on a cost-rental basis with fluctuating levels of State and local government support. In common with most other European countries, industrialisation, urbanisation and the consequent poor housing conditions in the mid- to late-nineteenth century led to efforts to improve the situation and provide housing for poorer households. However, there is little tradition of direct government financial support for such housing. Generally, early efforts emerged from trade unions and large enterprises providing co-operative housing, often assisted by municipal pension fund investment and indirect support. As Switzerland was not as adversely affected by either world wars, the massive building programmes that characterised post-war reconstruction efforts in Britain, the Netherlands and elsewhere were not mirrored in Switzerland. However, the high cost of construction after the second World War led to direct State grants to render new development viable. Various methods of assistance for the construction of social housing have been deployed in Switzerland since then, largely based on interest subsidies, cheap loans, and grants for time-limited cost rental housing.

Under Art. 108 of the Swiss Constitution, the “activities of developers and organisations involved in the construction of public utility housing” are to be encouraged by the Federal government. Additionally, it is obliged to “take particular account of the interests of families, elderly persons, persons on low incomes and persons with disability”. There is also a specific Constitutional duty to legislate against unfair rents and other “abuses in tenancy matters”. The Swiss social housing system is founded in a Housing Act of 2003 (the Federal Act for the promotion of Affordable Housing *wohnraumförderungsgesetz (WFG)*). This statute provides the legal underpinning for State support for non-profit housing, which as mentioned above is generally provided by co-operatives and other housing association type bodies. Support is provided through a working capital fund, a bond aggregator, and mortgage guarantee scheme.

The working capital fund (*fonds de roulement*) is run by the non-profit housing sector. Loans are advanced at least 1.5% below commercial rates for the residual financing of housing projects. Further finance is advanced by banks with the benefit of a guarantee of up to 90% of loans, backed by a State guarantee fund. A further source of finance is a co-operative bond issuer (*Emissionzentrale für gemeinnützige wohnbauträger*). These bonds are also State-guaranteed. For housing funded through these mechanisms, there are no specific stipulations

as to tenants. It is the sector that is regulated in terms of its non-profit mandate, its obligation to provide low-cost housing, and not to distribute any surplus. However, in practice, many non-profit housing bodies, do impose maximum income limits or other conditions on tenants. There are requirements as to tenants in dwellings funded under an earlier law, where State subsidies were available for dwellings for low-income households.

While there is no federal housing allowance or welfare payment, the Swiss cantons are obliged to provide social assistance and the general welfare payment system is taken to include housing costs. Wehrmüller (2014) reports that 12 of the 26 cantons offered further means-tested housing benefits in 2012. Furthermore, many sub-federal governments (cantons or cities) run housing support programmes, ranging from providing land to directly held housing. Geneva, for example owns 5,300 apartments for low income families with the rent determined according to income, while approximately a quarter of the housing stock in Zurich is owned by the municipality or a co-operative (Bourassa and Hoesli, 2006).

Rents in Switzerland are unregulated, though tenants may challenge “unfair” rent increases. Of the six European countries examined in this Chapter, Switzerland has the lowest proportion of market renters experiencing a housing cost overburden, while for those renting free or at a reduced price, it is roughly in line with France, the UK and the Netherlands, though significantly higher than Ireland and lower than Germany (Eurostat, 2016a). As support for low-income housing is only available to non-profit bodies, and as the basis of the rent is generally cost-rental, there is little incentive for profit entities to become involved in this sector. Switzerland therefore represents an interesting case, where despite a well-developed and deeply rooted private rental markets and a generalist social housing tradition, there is a sharp bifurcation between the social and market rented sector in terms of the funders and investors and has continued with existing policy goals rather than attempting disruptive change that has characterised approaches to the delivery of social/affordable housing in other countries.

5.8 Cross-country Comparisons, Private Sector Finance

Following the individual country profiles (Sections 5.2 to 5.7) this section briefly summarises some key cross-cutting themes emerging from the country specific discussions relating to the role of private investment in the financing of social/affordable housing.

The Australian and English cases illustrate Anglophone, common-law countries with much in common historically and culturally with Ireland. Both countries have liberal but small private

rented sectors, a high proportion of owner-occupiers, and both have in recent years aspired to bring institutional investment into rental housing. Despite these similarities, there are also widely divergent patterns of social housing, with Australia having a much smaller and latterly developed sector. The Australian private rented sector is less regulated than Ireland, but more so than the UK. Most investment is by small-scale investors and negative gearing is a significant factor in attracting investment to the sector however this has been controversial in the context of rapidly escalating house prices with capital gain a key motivation for investors.

England's private rented sector is one of the least regulated in Europe with relatively free bargaining power between landlord and tenant, free market rents, and little security of tenure. It is a sector that is growing in importance as fewer and fewer households find themselves able to access owner-occupation. Since the late 1980s, England has transformed its social housing system through the rapid development of a housing association sector that has developed sophisticated financial and treasury functions to the point where it can access capital market funding relatively easily. This pathway of transitioning from municipal provision to a not-for-profit sector with the capacity to provide a large proportion of the social housing required has been pursued in Ireland, though much later and far less disruptively than in England. Bringing institutional investment to the private rental market in general has been a goal of English housing policy. The strong regulatory structure, together with the track record of the sector and government backing means that the sector has been attractive both to bank lenders and to capital markets.

The French system illustrates a heavily statist approach that nonetheless produces a sustainable and cheap method of housing delivery, through means that are not strictly "institutional" finance but which bear many of its characteristics. The "Livret A" public savings account is a unique and relatively successful means of funding housing provision whereby savers can avail of good interest rates and tax advantages, and the deposits are used to fund social housing. Unlike all of the other countries examined here, there is little private sector involvement in French social housing.

In Germany, there is a highly developed and heavily regulated rental system in which the social/private divide is blurred, and where private finance and State supports work relatively harmoniously to provide housing. In Germany also, there is a relatively high level of

institutional investment in residential housing, though a low level of interest from such investors in social or low-income housing.

The Netherlands and Switzerland have some of the highest levels of institutional investment in residential property in the world, but with very small allocations to social housing. In the Netherlands, while institutions have availed of disposals of social housing stock, investment has generally come indirectly via bonds. Dutch social housing is in a state of flux, and while the general direction of travel appears to be towards a system more closely aligned with the market, and with increasing use of wholly privately provided housing. The interest of large German institutionally backed funds points to a way forward for housing associations in the Netherlands wishing to raise capital for further investment and development.

5.9 Conclusion

The countries cited in this chapter represent a diverse selection of housing systems with varying traditions of housing and tenure types. In all but France and Switzerland, radical reforms have been attempted in the last 20 or 30 years with different levels of success. In general, the trend is away from State provision towards more private sector involvement in the funding of social housing. Of course, in all cases, this generally represents a shift from public capital expenditure on housing to revenue payments of one kind or another. The overall extent of the shift is harder to quantify due to different regimes operating across federal states like Germany, Switzerland and Australia and although variable between countries, for example England where change has been more profound and in the case of France much slower the Chapter illustrates that the same global forces of capitalism and the neoliberalising impulses appear across all jurisdictions, though particular responses are local and specific.

In terms of institutional finance, no country can report a significant equity holding or pattern or investment in new social or affordable housing. In England and the Netherlands, relatively sophisticated housing association sectors can gain access to capital market funding through bond issues and other debt instruments (private placements) to develop and acquire new stock. In both Germany and the Netherlands, institutional-type entities have availed of stock transfer from public authorities or distressed portfolios, but in both cases, it appears that this is in anticipation of reversion to market rents or capital growth.

High levels of institutional investment in the private rented sector in Switzerland, the Netherlands and Germany appear to be driven by strong traditions of renting, highly regulated rental regimes and relatively high barriers to home ownership. In Australia, England, and Ireland where owner-occupation has been the traditionally dominant tenure, and where policy has encouraged home-ownership, institutional investment has been largely absent, or at best tentative. While there is a general growth in renting in these countries, it is far from certain whether this is a secular trend or whether it is a function of tight supply, low confidence, and constrained credit conditions.

This chapter having examined international examples of social/affordable housing illustrates a growing trend towards greater involvement of the private sector funding. Chapter six advances the thinking through the analysis of the investment performance of residential property as an investment asset class.

CHAPTER 6: INVESTMENT PERFORMANCE OF RESIDENTIAL PROPERTY

6.1 Introduction

As articulated at various stages throughout this thesis, in Ireland and also internationally, the trend is away from direct state provision of social housing towards more private sector participation. This represents a shift from public capital expenditure on social housing to a revenue-support approach utilising the private sector by direct or indirect payments. The underlying hypothesis that is implicit to this thesis is that Irish social and affordable housing should be amenable to institutional investment. This will require demonstrating to investors that the proposition can meet their expectations in terms risk-return, yield and liquidity.

As any such investment in social and affordable housing will form part of a wider portfolio for institutions, the chapter initially examines theories of how institutional asset mix is determined. The chapter examines the performance of international and Irish property as an asset class, compares the performance of residential as against commercial property and considers the investment characteristics of residential property. Specifically, the chapter seeks to address the fifth objective of the thesis namely to explore the characteristics and investment performance of residential property as income-producing asset class. The chapter includes two surveys of Irish institutional property investment managers. The first establishes that apart from a small number of new REIT investors, institutional investment in residential rental property is virtually non-existent. The second discerns from seven of the largest Irish pension funds their attitude to possible investment in the sector and investing in a fund holding State-supported housing.

The chapter is structured as follows. Section 6.2 considers the theoretical basis for property investment. Section 6.3 provides an analysis of residential property investment performance using international evidence and Section 6.4 extends the discussion to include an assessment of the investment performance of the Irish residential sector. Section 6.5 focuses on institutional perspectives concerning the investment potential of social/affordable housing in Ireland. Section 6.6 presents key conclusions on the analysis stemming from this chapter and sets the investment context within which a proposed residential fund in Ireland would function.

6.2 Theoretical basis for property investment

Typically, property as an asset class along with equities and bonds is a key component of institutional investment portfolios but has distinctive risk and return characteristics that are considered to bring diversification benefits (Ball et al, 1998). Investments in direct or indirect real estate have been shown to provide return enhancements and risk diversification benefits to investors' portfolios. The weight of research has focused in the main upon commercial property (Baum, 2009) within institutional portfolios with more limited contribution on residential property. However, the theoretical underpinning regarding investment performance of both sectors is essentially based on the same principles stemming from Modern Portfolio Theory (MPT) and the Capital Asset Pricing Model (CAPM).

According to MPT, total risk depends on two factors: the risk (variance) of the individual assets in the portfolio and the co-variance of each of the assets (the way each asset behaves relative to another). Thus assets that have a low correlation or negative correlation yield diversification benefits when combining the assets in a portfolio. In this context, Markowitz proposed a "portfolio perspective" to investing where portfolio selection is based on overall risk-reward characteristics rather than simply compiling a portfolio of securities with individually attractive risk-reward characteristics. MPT is based on the assumption that investors are risk-averse and seek to maximise returns with portfolios constructed on the basis of risk appetite and positioning on the efficient frontier.

One of the key assumptions of MPT is that markets are perfectly efficient. However, the crux of the problem is that financial markets are not informationally efficient. In other words, an investor cannot consistently achieve excess returns over the average market return on a risk-adjusted basis, given the information available at the time. According to the Efficient Market Hypothesis (EMH) (Fama, 1972) there are three forms of the EMH: weak, semi-strong and strong. The three forms are defined with respect to the available information that is reflected in market prices. If investors could trade on information that was not already priced into the market price, then they could earn excess risk-adjusted returns arising from information asymmetry.

The Capital Asset Pricing Model (CAPM), developed independently by a number of high profile economists (for example Tryenor and Sharpe) builds on the foundations established by MPT and was designed to provide a theoretical framework for the pricing of assets. CAPM

introduces the concept of a risk-free asset and proposes the Security Market Line which allows for the reduction of risk by adding or borrowing at the risk-free rate. As with MPT, CAPM describes the relationship between expected return and risk. CAPM decomposes risk into systematic risk (non-diversifiable) and unsystematic risk (diversifiable). Under the assumptions of CAPM, the investor holds a well-diversified portfolio such that unsystematic risk is eliminated and that which remains is systematic risk measured by the β (beta) of the stock(s). CAPM asserts that the required rate of return on a risky asset is a function of the risk-free rate, the expected excess return of the market over the risk free rate and the sensitivity of the stock to the market as measured by beta (risk). In other words, the higher the beta, the higher the expected return as an investor will require additional compensation for holding a riskier asset.

Given the complexity and specific characteristics of property namely heterogeneity, fixed location, unit value, borrowing, long-term nature of the holding, management, the market cycle and supply, depreciation, price determination and illiquidity (Hoesli and MacGregor, 2000) and the nuances of MPT and CAPM an institutional investor may seek to diversity exposure through direct and/or indirect investment such as shares or units in a quoted Company (REIT, Property Unit Trust, unlisted fund/vehicle or derivative). However, as articulated earlier in this section the focus has been on commercial real estate and the benefits of investing into the residential sector and including housing in institutional portfolios has been generally under-researched. In this context, one of the leading papers that considers housing investment in an institutional portfolio is that advanced by Montezuma (2004) who is of the opinion that the extent to which housing markets and capital markets are causally related has significant implications for effective portfolio diversification strategies.

In particular, Montezuma identified that investors have the opportunity to exploit differences in risk-adjusted returns across respective asset classes including residential property and argued that institutional investors start to consider housing as part of their portfolios depending upon the degree of integration between housing markets and capital markets once this exceeds a minimum level for the particular country in question. Montezuma noted that housing markets diverge from capital markets in a number of significant ways arising from government intervention, illiquid and heterogeneous investments, expensive information and complex pricing processes. These attributes were seen as making it impossible to have an accurate housing market value and hence diminish the attractiveness of residential property in a

portfolio. Thus Montezuma considers that securitised residential assets present several advantages for investors compared to direct investment and that a consequence of institutional investment in the rented residential sector will be the development of new products/vehicles and better market efficiency arising from the availability of systematic information about housing markets. Furthermore, the paper suggests that institutional allocation can be best considered in an asset-liability context as the mean-variance model advocated by Markowitz ignores the presence of liabilities in the decision-making process. It is also argued that the market must be of a sufficient critical size to deliver diversification benefits, a factor that is currently inhibiting institutional investment in the private rental sector. The latter is also constrained by the ability to demonstrate that housing will improve risk-adjusted returns above that already possible through investment into the retail, office and industrial sectors of the property market. Nevertheless, Montezuma (2004) concludes that residential property does offer an alternative to institutional investors who are looking to hedge against changes in bonds and equities and that low correlation between residential and commercial property may provide added diversification benefits to portfolios.

Giannotti and Mattarocci (2008) also voice criticism of the Markowitz model in simplifying selection of real estate investments from a portfolio perspective, weaknesses that partly stem from the model itself but which are also partly attributable to the characteristics of property and the peculiarities of the real estate market. The authors argue that tenant, exogenous, endogenous and financial risks can impact differently on the risk-return profile of single assets or whether within a larger mixed-asset portfolio. Specific constraints of the mean-variance model were seen to stem from differences between real estate and financial markets, the distribution of real estate returns with the assumption that they conform with a normal distribution challenged, and the application of property indices based on either a low number of heterogeneous transactions or appraisal/valuation based with a smoothing of returns series. Similarly, it was argued that the efficient frontier model is highly sensitive to expected returns errors and any change in input data may alter the composition of the portfolio or the risk /return ratio.

The literature reviewed in this section serves to show the complexity faced by potential investment in the residential sector per se, problems which become more compounded when applied to the affordable/social housing sector. It is apparent that the underlying theoretical base has weaknesses and when coupled with the peculiarities of property and a relatively thin

level of information making the case for enhanced institutional investment in sector is difficult. Nevertheless, there are examples in the literature showing that residential property can contribute to portfolio returns. For example, Goetzmann and Ibbotson (1990) found that the total return (income and capital appreciation) of US housing markets outperformed bonds but underperformed equities, Newell and Kamineni (2007) showed that in India on a risk-return basis that Mumbai residential was amongst the best performing real estate sectors in mixed-asset portfolios and that diversification benefits have been evident for office, retail and residential real estate.

The next two sections of this chapter using returns data for the residential sector derived from a number of sources, particularly MSCI/IPD, analyses firstly at an international level (Section 6.3) and secondly from an Irish context (Section 6.4) whether acceptable investment returns are possible from residential property.

6.3 Comparison of Returns in the Residential Sector with All Property Types

For affordable/social housing to be investable, the risk/return characteristics of the sector need to be comparable with investment benchmarks in other asset classes and potentially superior than that achieved for other property types. Unfortunately, there is a major data constraint regarding such evidence with the best data on the sector at an international level being that available for the wider residential sector from MSCI/IPD. Furthermore, this provision is limited to a number of countries with annual time series data available from the early 2000s. Hence in analysing the performance of residential property against all property (the commercial property sector) this thesis explores 15 Year annualised return series from 2002 to 2016 inclusive reflecting long-term performance to match the characteristics of the housing sector. Importantly, the time series selected captures the property market boom of the early to mid-2000s, the impact of the Global Financial Crisis (GFC) and the subsequent recovery period.

The countries selected are designed to overlap with the international examples used in Chapter 5 with the exception of Australia, which is excluded due to the absence of a residential total returns time series by MSCI for that country, but including a number of additional countries namely Canada, the US, Denmark, Finland and Sweden giving a total of ten countries. Total return data are used rather than property indices for this stage of the analysis and total return is also broken down into its component parts (capital growth and income).

Comparative analysis of residential property against all property shows an inconsistent pattern across the ten countries considered but significantly in the case of six countries there is evidence of out-performance by the former (Figure 6.1). Of particular importance is that of the UK, given the historical ties between the UK and Ireland (Chapter 3), the similarity of institutional structures, ownership rights and the operation of the property market. For the 15 Year annualised return, residential property (10.6%) is significantly greater than that for all property (8.4%) underwriting the potential for housing to be a viable asset class or sub-class within the investment universe. In the Nordic countries, Sweden (10.1% residential, 8.0% all property), Finland (8.4% residential, 6.4% all property) and Denmark (9.4% residential, 7.4% all property) similar differentials are apparent with on average residential property out-performing all property by circa 2%. Germany has a similar pattern with 15 Year annualised returns for residential (6.3%) outperforming all property (4.1%). For Switzerland the difference between the respective returns for residential property (6.2%) and all property (6.1%) is nominal and not statistically significant. Of the four countries showing a higher 15 Year annualised performance for all property, that for the Netherlands is marginal (6.1% compared with 6.2%) and only slightly greater for France (8.2 compared with 8.9%). For the two North American examples, the US showed the same performance returns as France (8.2% residential, 8.9% all property) while Canada has the greatest under-performance by residential (9.4%) compared to 10.6% for all property.

Figure 6.1 Comparison of 15-Year annualised total return residential versus total return all property, selected countries.



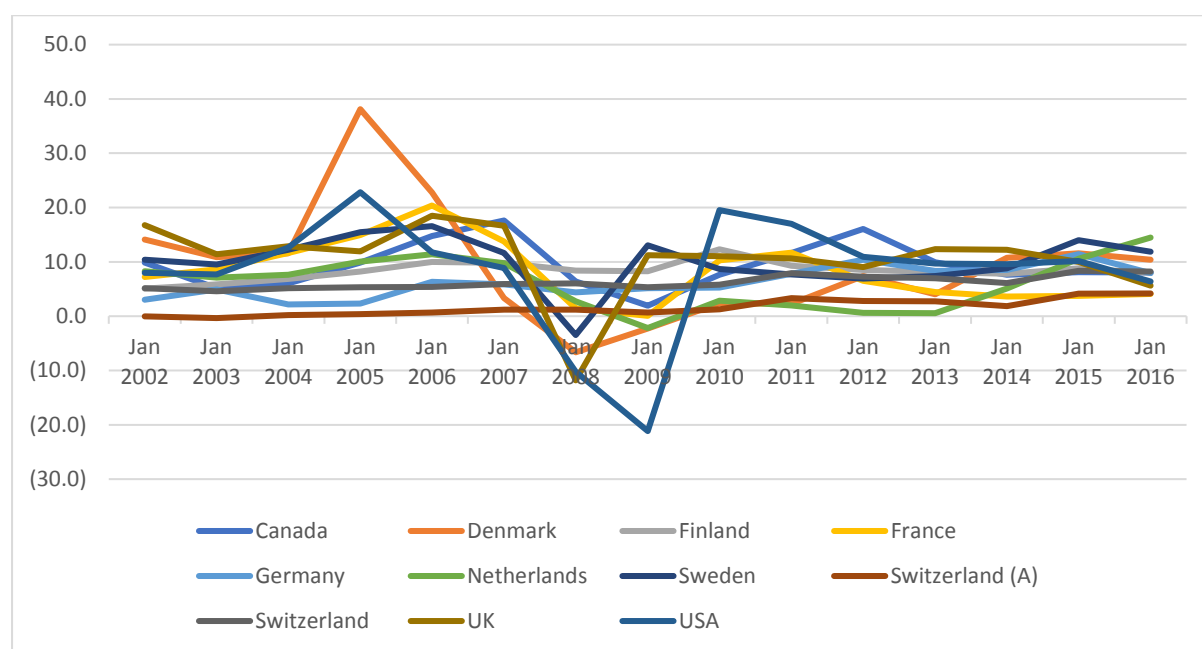
Total return evidence from selected international countries strongly suggests that residential property can either outperform or equal that for all property and hence provide a realistic investment opportunity for institutional investors. On a risk adjusted basis, while the relative position of countries change somewhat a broadly similar picture is apparent. The return per unit of risk for residential property is greatest for Switzerland (5.1) and Finland (4.9) although the former lags the return per unit of risk for all property (7.6) while for the latter the return per unit of risk for all property is lower (3.3). Overall, for five of the selected countries – Canada, Finland, Germany, Sweden and UK residential property has a better return per unit of risk than all property and a sixth, France shows the same return/risk profile for both residential and all property (Table 6.1).

Table 6.1 Total return, risk and return per unit of risk, residential property and all property selected countries, 15-year annualised figures

Country	Total return residential %	Risk (sd) residential	Return/risk residential	Total return all property %	Risk (sd) all property	Return/risk all property
Canada	9.4	4.2	2.2	10.6	5.4	1.9
Denmark	9.4	10.7	0.9	7.4	4.6	1.6
Finland	8.4	1.7	4.9	6.4	1.9	3.3
France	8.2	5.6	1.5	8.9	6.2	1.5
Germany	6.3	2.8	2.3	4.1	2.3	1.8
NL	6.1	4.8	1.3	6.2	4.1	1.5
Sweden	10.1	4.8	2.1	8.0	5.9	1.4
Switzerland	6.2	1.2	5.1	6.1	0.8	7.6
UK	10.6	7.0	1.5	8.4	10.6	0.8
US	8.2	10.9	0.8	8.9	9.7	0.9

Total returns of residential property are characterised by considerable volatility over the 15-year period, mostly associated with the boom period pre 2007 and the consequences of the GFC in 2007-2009 (Figure 6.2). The effects of the latter are particularly apparent in the US with sharp negative returns for consecutive years culminating in 2009 (return -21.2%) but rebounding sharply in 2010. Curiously, the Danish market is characterised by high volatility with very strong positive annual total return of 38.1% in 2005 dropping into negative territory in 2008. In the post GFC period, total returns, although varying across the countries, are much more stable with less volatility apparent.

Figure 6.2 Total return annualised residential property, selected countries



These volatility figures reflected in the high levels of risk, measured by the standard deviation of the return series, are apparent in a number of countries noticeably the US (10.9) Denmark (10.7) and to a lesser extent the UK market (Table 6.1). The lowest levels of absolute risk are apparent for Switzerland (1.2) and Finland (1.7). In comparison in the all property sector, the UK (10.6) and the US (9.7) have the highest risk levels 10.6 and 9.7 respectively again capturing the impact of the GFC on the property market in these countries. For the UK, seemingly much higher risk was apparent for all property than residential during this period. Overall, five countries have lower values of absolute risk for residential versus all property again reflecting the potential investment appeal of this sector of the market.

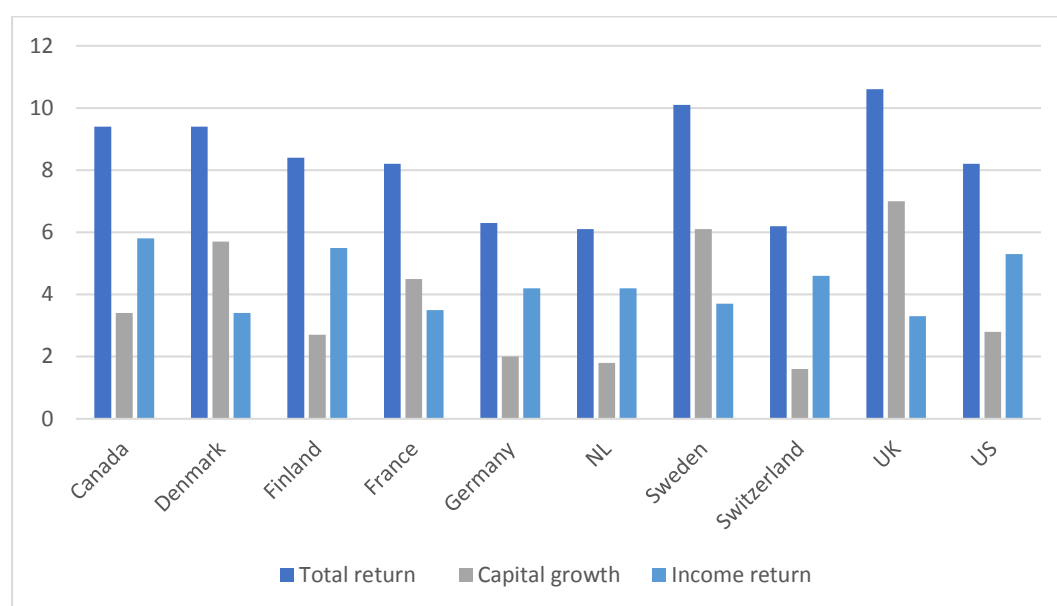
Disaggregating total return into its components of capital growth and income return shows a considerable divergence between the selected countries regarding which is the dominant element in driving performance (Table 6.2). The expectation that capital growth is the key driver is only apparent to any significant extent in the UK, Sweden and Denmark and to a lesser degree for France. In the other countries, income return is the driver of performance. This is particularly the case in both the North American countries but also in Switzerland, Finland, Germany and the Netherlands.

Table 6.2 Total return, capital growth and income return 15-year averages (2002-2016), selected countries

Country	Total return %	Capital growth %	Income return %
Canada	9.4	3.4	5.8
Denmark	9.4	5.7	3.4
Finland	8.4	2.7	5.5
France	8.2	4.5	3.5
Germany	6.3	2.0	4.2
NL	6.1	1.8	4.2
Sweden	10.1	6.1	3.7
Switzerland	6.2	1.6	4.6
UK	10.6	7.0	3.3
US	8.2	2.8	5.3

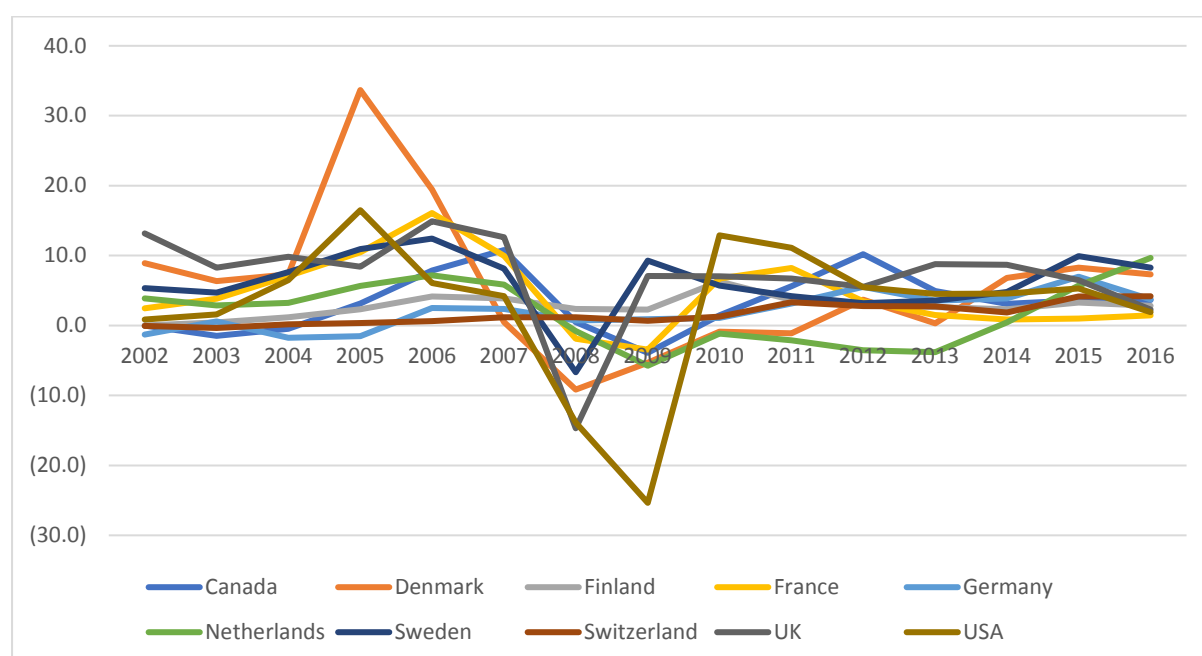
Seemingly there is no clear pattern in the relationship between countries and the respective components of total return (Figure 6.3) though it is apparent that where total return is high as in the case of the UK, Sweden and Denmark, capital growth likewise is high and exceeds income return. Likewise, those countries with lower total returns such as Germany, the Netherlands and Switzerland are also characterised by low rates of capital growth over the 15 year return series. However, this is a generalised picture to which Canada, the US and Finland in particular do not conform.

Figure 6.3 Total return, capital growth and income return 15-year averages (2002–2016), selected countries



The analysis of capital growth patterns over the 15-year time horizon highlights much greater volatility and cyclical effects, notably the negative impact of the GFC on capital returns. Significantly in the case of the UK, Denmark and Sweden countries in which capital growth was shown to be the key driver of total return strong levels of volatility are apparent, notably for Denmark where capital growth was skewed by the 2005 figure of 33.7% and falling rapidly to negative capital growth of 9.2% in 2008. Similarly, the UK although experiencing more modest capital growth on the up-cycle of 14.9% in 2006 showed a negative capital growth of 14.7% in 2008. The most dramatic negative capital growth occurred in the US with the 2009 figure of -25.4%, clearly this high level of volatility is impacting upon the capital growth contribution to total return.

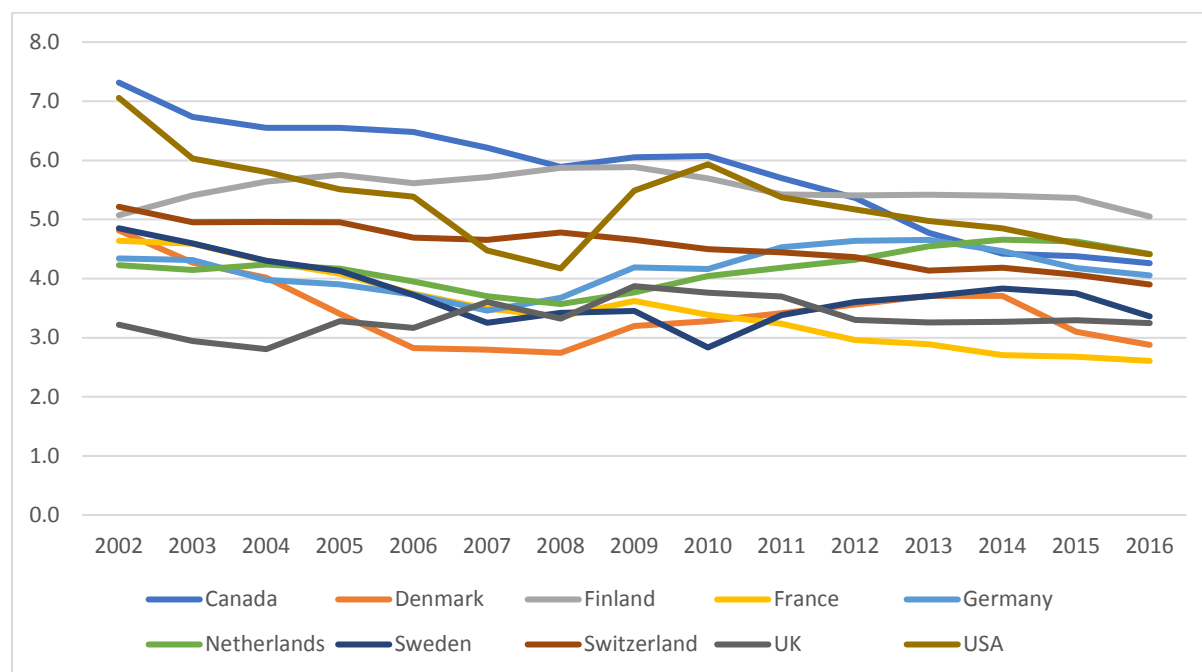
Figure 6.4 Capital growth residential property 2002-2016, selected countries



Income return, in accordance with theory and expectations, across all countries is much less volatile reflecting the security of income streams from lease agreements. However, over the time period all countries are displaying a general downward trend in income return from residential properties. In the case of Canada this element has declined from 7.3% in 2002 to 4.3% in 2016 and for Switzerland from 5.2% to 3.9%. The UK displays a more variable picture though starts and finishes the time series with a 3.2% income return. The US displays the greatest volatility in income returns ranging from 7.1% in 2002, declining to 4.2% in 2008 and although recovering to 5.9% in 2011, by 2016 the income return had reduced to 4.4%. Thus, the overall picture of income returns from residential property whilst more stable than capital

growth is nevertheless indicating a downward shift but tending to flat-line from circa 2012 to 2016 which is well illustrated by the UK example.

Figure 6.5 Income return residential property 2002-2016, selected countries



The above analysis is based on 15-Year annualised returns to reflect the likelihood of a long-term holding period for residential property. However, comparison with 10 Year, 5 Year and 3 Year annualised figures shows varying performance of residential investments by country depending on the time-period and the varying impacts of the GFC on the respective economies (Table 6.3). Thus, over the 10-year period, performance returns dipped in several countries most notably the US, the UK, France and Denmark. Significantly a number of countries have shown strong growth in residential total returns over the 3-year (2014-2016) and 5-year (2012-2016) time periods. In this context double digit returns are apparent for Sweden, Denmark and the Netherlands with Germany showing stronger 3- and 5-year returns (9.3%) compared to the 15-year time horizon. A feature of this analysis is that a number of other countries have been highly consistent in terms of performance returns over the four time periods, for example Finland and Switzerland. In the case of the UK, despite the impact of the GFC, returns in the residential sector have remained relatively consistent.

Table 6.3 Annualised residential total return 15 Year, 10 Year, 5 Year and 3 Year, selected countries

Country	15 Year %	10 Year %	5 Year %	3 Year %
Canada	9.4	9.5	10.0	7.9
Denmark	9.4	4.2	8.8	10.9
Finland	8.4	8.9	8.3	8.2
France	8.2	5.9	4.5	3.8
Germany	6.3	7.5	9.3	9.3
NL	6.1	4.5	6.1	10.0
Sweden	10.1	8.6	9.7	11.5
Switzerland	6.2	6.8	7.4	7.6
UK	10.6	8.4	9.8	9.2
US	8.2	5.4	9.3	8.7

Property, as argued in the literature review section of chapter (Section 6.2), brings diversification benefits to institutional portfolios however the analysis shows that residential investment does not bring any further enhanced investment gains in this respect. Correlations between residential investment returns and that for all property in each of the comparator countries are strongly positive (Table 6.4) in particular for the US (0.97), the Netherlands (0.94) and France (0.92). For the UK, a reasonably strong correlation (0.75) is apparent. Only Finland (correlation 0.45) had a low correlation suggesting the potential for further diversification from investing in residential relative to other property types for this country alone.

Table 6.4 Correlation coefficients between residential and all property, selected countries

Country	Correlation between residential and all property
Canada	0.75
Denmark	0.86
Finland	0.45
France	0.92
Germany	0.79
NL	0.94
Sweden	0.65
Switzerland	0.71
UK	0.75
US	0.97

Before leaving this section on investment, it is noteworthy that despite the low yields and the relatively low rates of rental growth report, the sum of €38 billion was invested in the residential sector in Europe (JLL, 2017).

Table 6.5 Quantum of Institutional Investment in Residential Rental Housing (JLL, 2017)

Country	Quantum of investment
Germany	€13.7bn
Sweden	€7.8bn
Denmark	€3.5bn
Holland	€3bn
Finland	€2.8bn
France	€2.5bn
UK	€2.3bn
Spain	€1.0bn
Other	€1.0bn
Total	€38

Source:

Thus, a huge level of investment is going into European residential investment and for such investors the low-income returns is not a disincentive.

By way of comparison, in the USA, \$90.5bn of multifamily investment properties traded which was down slightly from \$96.9bn in 2016 (REA, 2018). The growth and change in the volume of residential investment in the USA over the past 10 years is shown below.

Table 6.6 Quantum of Institutional Investment in Residential Rental Housing, USA, 2007–2017 (REA, 2017)

Year	Quantum of investment
2007	\$41.1bn
2008	\$20.1 bn
2009	\$6.6 bn
2010	\$19.5 bn
2011	\$32.9 bn
2012	\$42.8 bn
2013	\$49.4 bn
2014	\$66.7 bn
2015	\$88.2 bn
2016	\$96.9 bn
2017	\$90.5 bn

An interesting inputs from the same sources is that in the USA there was an almost an identical level of investment in offices as in residential with €93.4 billion of office transactions in 2017. Access is not available to similar statistics for Europe.

6.4 Irish Residential Investment Performance

In contrast to the international examples, the evidence base for Ireland concerning the investment performance of residential property is appreciably weaker. Although MSCI/IPD have been producing a quarterly time-series for Ireland since 1998, this has focused almost entirely upon the traditional sectors of the commercial property market and to date has not yet produced a residential index for Ireland though some residential return data are available as referenced in this section. This is reflective of the relatively small percentage of institutional investment in the residential property sector in Ireland (less than 1%) whereas in Switzerland this amounts to 47% and in the Netherlands 46%. In terms of other European countries considered in Section 6.3, residential property constitutes 18% of institutional portfolios in Finland, 12% in France, Germany and Sweden, 10% in Denmark and 4% in the UK (IPD, 2014).

The data deficit for Irish residential property means that the analysis in this section has had to draw largely upon information on yields, rather than total return, from agents' reports and discussions with key actors in the sector. In this regard, it was the opinion that whilst most investors focus on the combined capital-income yield, others were interested in income only as the key performance indicator. It was the opinion that with interest rates at their historic low levels since 2008, coupled with low bond yields and a low inflationary environment, lower-yielding investments are more attractive than formerly, particularly if they have potential for growth in line with, or ahead of inflation. Property yields in stable markets have been slower to fall than bond yields however, in Ireland, yields across all property sectors have varied enormously. For example, in Dublin 1 (city centre north and docklands including IFSC) the net income yield is 5.9% and the gross initial yield is 8.2% whereas, in Limerick in the Southwest of Ireland the respective yields are 7.8% and 11.1%.

Focussing specifically on the residential rental sector, a report by Goodbody (Lauder, 2017) using MSCI data shows an annualised 5 Year (2012-2017) total return of 15.6% compared to offices at 21%, retail at 15.5% and industrial at 15.4% (Table 6.6). However, in comparison with the international examples (Table 6.3), the 5 Year annualised returns for residential

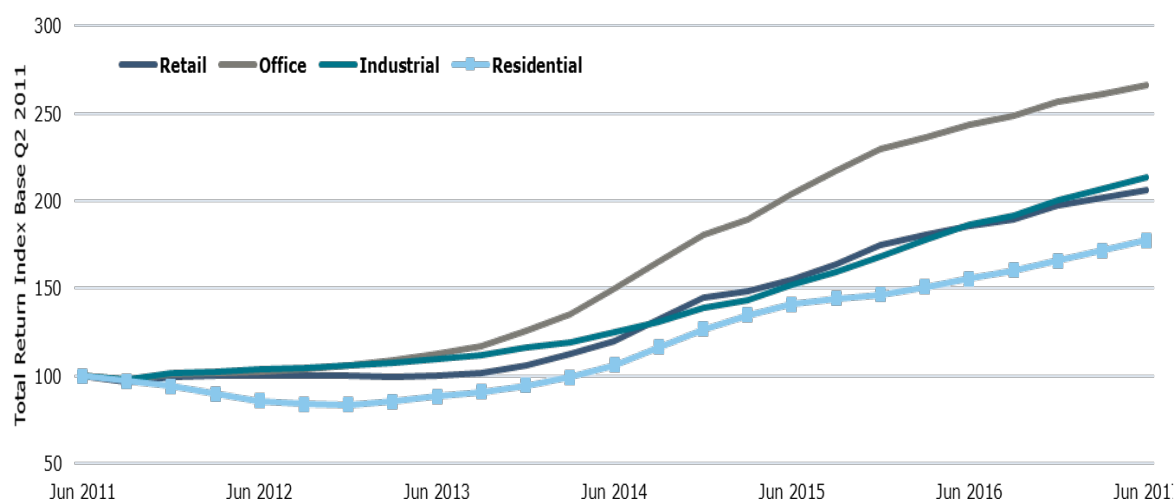
property in Ireland seemingly appears to outperform the selected international examples in terms of total return.

Table 6.7 Property performance indicators for Ireland (source Goodbody/MSCI)

Property sector	Annualised 5 year total return (%)	Risk (sd)	Return/risk
All property	18.6	12.1	1.5
Retail	15.5	11.6	1.3
Office	21.0	13.1	1.6
Industrial	15.4	6.9	2.2
Residential	15.6	11.3	1.4

This analysis indicates that in terms of total return the performance of residential property lags the office sector but is highly comparable to the retail and industrial sectors. Examining performance in index terms since 2011, the office sector clearly leads, retail and industrial property show a largely parallel performance, whilst residential property due to a decline in the index in 2012 and 2013 seemingly under-performs relative to the mainstream commercial property sectors (Figure 6.6).

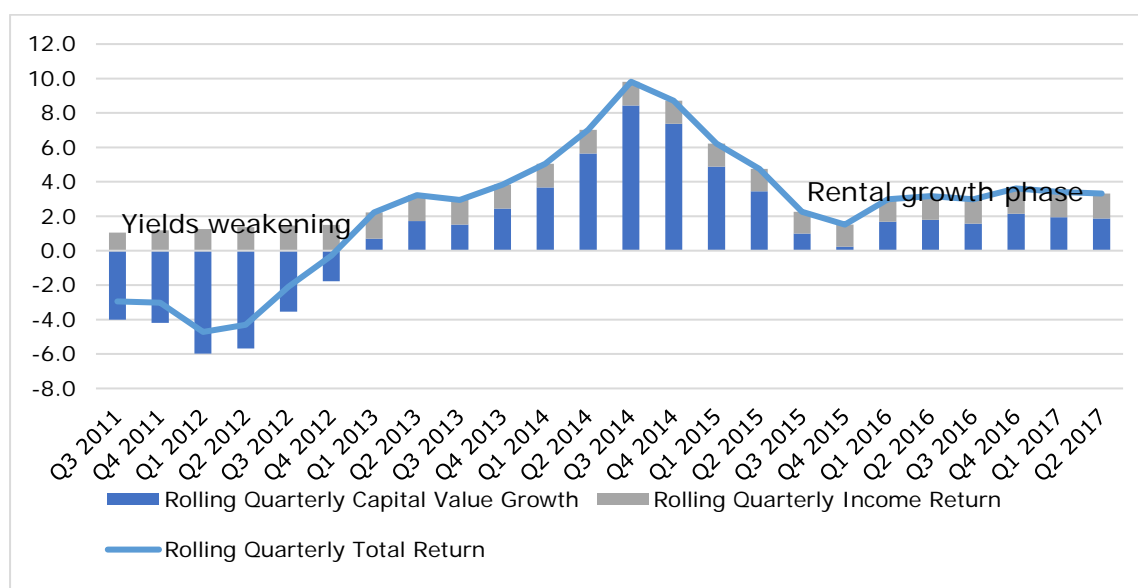
Fig 6.6 Index-based investment performance of the office, retail, industrial and residential sectors in Ireland, 2011-2017



The data highlights the strong recovery of all property sectors in Ireland following severe negative returns in the aftermath of the GFC. Whilst the 5 Year return performance for residential property in Ireland suggest that good levels of risk-adjusted return are possible, the market has been subject to cyclical. The latter is highlighted by sharply falling rents and

yields moving out in the depth of the recession (Figure 6.7) resulting in a fall in capital values and with demand returning in 2013, rents started rising, yields returned to pre-recession levels.

Fig 6.7 Irish property yields and returns Q3 2011 to Q2 2017 (source Goodbody, CSO, Daft.ie)



Whilst, the analysis for Ireland is indicative of high rates of total return, annualised over the 5-year period, these have been matched by high levels of volatility in the returns series and high risk (Table 6.6). Hence, on a risk-adjusted basis, the interpretation is less favourable with residential property (1.4) significantly underperforming industrial property (2.2), slightly below offices (1.6) but above retail (1.3).

Furthermore, comparison of the performance of the residential sector in Ireland against the selected international countries (Table 6.8) indicates that although 5 Year annualised total return for Ireland (15.6%) significantly exceeds all other countries, Canada being the closest (10%), the risk factor (11.3) in Irish residential equally outstrips all other countries. The country with the next highest risk over the 5 year period is the Netherlands with a risk of 6.2. Hence, in terms of the risk-adjusted performance, Ireland (1.4 units of return per unit of risk) is next to bottom of the comparator countries. Whilst Finland (20.7) is an exception (20.7) over this five-year period, all other European countries have appreciably better risk-adjusted performance, for example Sweden (3.3), the UK (3.6), France (3.8) and Germany (6.2). Thus it would appear that the high level of risk is a significant issue for institutional investment in the residential sector in Ireland and undoubtedly the risk factor will be greater for the social/affordable sub-set of the housing market.

Table 6.8 Comparison of 5-Year annualised return, risk and return/risk for residential properties, Ireland and selected countries

Country	5 Year annualised return (%)	Risk (sd)	Return/risk
Ireland	15.6	11.3	1.4
Canada	10.0	3.5	2.8
Denmark	8.8	3.1	2.8
Finland	8.3	0.4	20.7
France	4.5	1.2	3.8
Germany	9.3	1.5	6.2
Netherlands	6.3	6.2	1.0
Sweden	9.7	3.0	3.3
Switzerland	7.4	0.9	7.9
UK	9.8	2.8	3.6
USA	9.3	1.7	5.4

6.5 Social/Affordable Housing Investment: Institutional Perspectives

The analysis presented in Sections 6.3 and 6.4, focusing on performance returns and risk both in an international and Irish context, largely captures the private rented sector rather than the investment potential of social/affordable housing. Thus this section shifts the focus towards views expressed by key players in the Irish residential market and with specific consideration given to investment in the social/affordable housing sector. The first set of discussions set out to establish the perceptions of Irish institutional investors (excluding pension funds) to investment in residential property. Conducted with stake-holders at chief executive/director level, this round of interviews targeted eight leading institutional investors in Ireland and their organisations (Table 6.9).

Table 6.9 Summary of Irish Institutional Investor attitudes to residential property

Irish Institutional Investor Survey: Attitudes to Residential Investment				
Institution	Interviewee	Current residential holdings	Comment	Social housing portfolio content
Irish Life	Chief property officer	Nominal	We exited the sector decades ago	NA
Iput	CEO	Nominal	No interest in sector	NA
Hibernia REIT	Director/CEO	370 units and growing	We like upper end residential	Nil
Green REIT	Chairman	Nil	Not interested in sector	NA
IRES REIT	Director	1900 and growing	This is our core business	Only small fractional holding of 2% or 3% max
Kennedy Wilson REIT*	COO	1300 and growing	We like the sector	Only small fractional holding: 2% or 3% max
Friends First	Head of property	Nil	No interest in sector	N/A
New Ireland	Head of Property Investment	Nil	No interest in sector	N/A

These interviews confirmed that residential holdings are only fractional with a very low level of interest in the sector. This is highlighted by 50% of the top institutions/vehicles not interested in residential investment and, a further company, Irish Life, had previously exited from residential investments meaning that only three of the eight institutions are actively interested in this sector, all of which are REIT structures and relatively new players in the investment property market in Ireland. For example, IRES REIT, a specialist in residential rental property floated in April 2014, raised over €350m on the stock market and since has been actively acquiring rental homes, and currently has a portfolio of approximately 2,400 units in Dublin (IRES, 2018). IRES REIT reported a gross yield on its assets of 6.6% at end 2016 with property management costs of 78.8% implying a net yield of 5.2%. A recent portfolio transaction by IRES REIT reported an acquisition of a portfolio of 700 units at a gross yield of 5.1% but it is believed that the portfolio was significantly reversionary and increases in rental income could be expected. An interesting aspect of the acquisitions by the IRES REIT is the sharp difference

in the gross yields secured for the transactions in 2014 compared to those in 2016 (Table 6.10). These differences are primarily attributable to location and nature of the asset in terms of property characteristics. The average price paid in the first three deals was €309,000 whereas the last three averaged €218,000.

Table 6.10 IRES REIT transactions 2014-2016

Date	Location	Number	Gross yield	Unit price €
Oct 2014	Various suburbs	761	5.20%	360,151
April 2014	Marker CBD	84	5.07	231,548
April 2015	Rockbrook	270	5.20%	335,556
May 2015	Inchicore	92	7.50%	211,413
Jan 2016	Tallaght	442	7.40%	187,783
April 2016	City sq. Dublin 2	23	7.50%	256,522

Two other REITS, Hibernia and Kennedy Wilson, have also become involved in the sector, owning about 2,000 units between them. Hibernia REIT plc holds a residential portfolio of 309 units. At end March 2017, Hibernia's residential portfolio was worth €116m and comprised 309 units. The net passing rent on these was €5.2m which implies a net initial yield of 4.6%. Kennedy Wilson report a weighted average yield of 5% on their diverse portfolio of residential assets in Ireland. NAMA also established a specialist residential investment vehicle, similar in many characteristics to an institutional investment vehicle, which holds about 2,000 units leased as social housing to AHBs.

The second survey focused specifically on pension funds in Ireland to ascertain the views and attitudes of this sector regarding an investment offer based on social and affordable housing. The interviews were conducted with trustees or in-house investment managers of seven of the largest Irish pension funds. Typically, these were defined benefit funds, though some are now hybrid schemes. The approach adopted was based on a series of questions designed to produce a semi-structured interview format permitting respondents to further elaborate. The interviews were conducted in partnership by the researcher and an experienced adviser to the pensions industry who had a high degree of familiarity with the funds and their requirements. This provided the respondents with an interlocutor who understood their business and its concerns. The interviewer was instructed as to the purpose of the survey, and the significance of each of the survey questions. The questions were aimed to validate and assess the relative importance of issues identified in the literature and to elicit an understanding of the requirements of putative investors in the Fund model. There were other benefits to using a third party to conduct

the interviews. First, as the interviewer emphasised that he was not a promoter or advocate for the idea of investing in social and affordable housing, respondents could speak candidly. Second, the industry is naturally cautious and conservative, and would be most unwilling to engage in a “sales pitch” environment without a clear offer. Assurances of confidentiality and anonymity were made to all respondents.

Specifically, the interview process allowed respondents to elaborate on their views and follow-up questions were used to facilitate an understanding of the rationale for their responses. This format also permitted respondents to focus on aspects of interest to their respective funds, rather than insisting on undue concentration on points that were of more marginal interest to respondents. The premise of the interviews was that if an opportunity to invest in social and affordable housing arose, what considerations and requirements of pension funds in this context. A short one-page summary of the DADF offer was included with the request to participate. Interviews lasted around 60–90 minutes. The questions were centred on the following issues:

- Type of investment instrument (fund/vehicle Structure, liquidity and investment return);
- State involvement (whether by way of guarantee/underwrite/Step-in arrangement);
- Pension Authority approval for risk reserve purposes;
- ISIF involvement;
- Any other considerations.

As to the type of instrument that might be used to channel funding into the proposition, there was a unanimous view that a long dated, index-linked bond instrument would have attraction. In particular, linkage to Irish inflation which is not otherwise available, would be attractive even if this linkage is “dirty” and may be subject to lags.

Fund A pointed to the successful UK model for “Secure Income Assets”, real estate or infrastructure projects which provide contractual long-term and inflation-linked income streams supported by high quality counterparties and with strong asset backing. These have been very successful and some Irish funds and the investment advisory community are familiar with them. Fund A also pointed to the potential for an amortising bond which would release capital for the investors over time. The property in this instance could revert to the local authority at the end of the lease but the lender is increasingly collateralised as the (long) lease progresses. Two of the interviewees pointed to the attraction of regular annual income both in

meeting their requirements for cash flows and for providing an element of liquidity. Fund B suggested a bond with an equity kicker.

There was no explicit preference expressed for any specific vehicle type, whether for a limited company or alternative investment fund. Two interviewees expressed a clear preference for a closed-end structure. Fund G saw a closed-end solution as facilitating exit. Fund A felt that a closed-end structure would accommodate a phased investment in the underlying assets by seeking commitments from investors which could then be drawn down as properties are developed. This could be an efficient way for investors to place their funds.

Fund G said that they could see an attraction in successive tranches of fundraising with new sub-funds being launched after the first was up and running. Fund G also expressed concerns over a potentially long pipeline from initial commitment of monies to the Fund to the first receipt of interest/dividends by the investor. This fund would not be comfortable giving open-ended or long term (more than one year) commitments to invest. Any such commitments given might have an expiry date.

Contrary to expectations, liquidity was not a significant concern. Most funds believed that their highly-diversified portfolios with substantial exposure to liquid assets enabled them to include some proportion of illiquid assets in their strategies. One fund was a significant user of derivatives which releases capital, and was not therefore liquidity-constrained, and the fund was happy to hold illiquid assets provided it received the appropriate liquidity premium. Funds continuing to experience positive cash flows were less concerned about liquidity than other more mature funds. One fund was doubtful that there was much scope to add liquidity to a bond type instrument but nevertheless felt that liquidity was not a constraint provided it was compensated for and that the annual income provides an element of liquidity. Another respondent expressed the view that a collectivised vehicle over time would lend itself to adding liquidity. One respondent posited the view that a project of this nature could be attractive to European investors on a five-year view and this could provide an exit.

All funds, except one, reacted favourably to the suggestion that expected returns were of the order of 4% + in real terms. A further fund considered that IPUT as a realistic comparator, currently providing an income yield of 4.2%, which is regarded as inflation protected though not inflation linked. The pension funds would expect DADF to provide a higher yield (in the range of 5–5.5% real) though they might accept lower yield if a substantial degree of

government underpinning of the DADF cash flows could be agreed. Fund A mentioned that the success of the UK model has pushed yields down to 3% real.

Clearly a dividend paying, real return of 4%+ is attractive in the current low interest rate, low bond yield environment. Nevertheless, investors expect to be compensated for any risks they take and to receive a premium return when any of the ideal elements that they require from an investment are not fully present. Fund A summarised this very clearly: the ideal opportunity is a long-term, inflation linked, sovereign-backed project. This might currently return 3% real.

Unsurprisingly, all interviewees agreed that the involvement of the State whether directly or via the local authorities would be a significant advantage both in smoothing the way for Pensions Authority approval for ranking the DADF bond for risk reserve purposes and indeed for lowering the expected return on the bond. One respondent observed that it would be important to make the cash flows appear as “government-esque” as possible. Apart from the Fund which because of its use of derivatives has no concerns over the minimum funding standard, all other respondents cited Pensions Authority approval as a significant attraction, though a number of funds were sceptical of the Authority’s willingness to make any such decisions.

There was general agreement that ISIF involvement as a co-investor would be a significant advantage. There is a high regard amongst the pension funds for ISIF’s investment capabilities and resources. Whilst agreeing they would need to do their own due diligence on the proposal, respondents would take comfort from the fact that ISIF was also participating. One respondent observed that ISIF participation could deliver critical mass. However, all respondents were positive about the proposed DADF approach to the various operational and execution risks attaching to the project. Two funds pointed to political risk should the political climate change and to the reputational risk that could arise with any evictions of tenants or similar events that could transpire in the future.

Operational risk and management of the project were raised as issues by four of the funds. One respondent considered that there is a high level of execution risk involved because of the number of players – tenants/AHBs/ local authorities/builders/DADF. Another observed that the funds would expect operational management to be effective but that there should not be “too many people in the middle”. Another respondent emphasised that in respect of

governance/costs/fees the offering to investors must be clear, clean and transparent. The clarity of the project was an attraction for Fund G.

There is clearly a concern in the minds of respondents around the cost, in terms of time and resources, of due diligence. ISIF have a strong reputation in this area but funds are aware that this task cannot be contracted out to ISIF, but must be undertaken on their own behalf. Fund E was at pains to point out that due diligence is a long, laborious and costly process and opined that early investors do the groundwork for future investors and should be compensated for this in the terms they receive. This is reflected in earlier comments regarding the long timeline between concept and completion.

6.6 Conclusion

This chapter initially illustrates that investment theory based around MPT and CAPM applies equally to residential property and commercial property held as an income producing assets, although the literature predominantly focuses on the latter with few studies analysing investment returns in housing. Hence this research adds to the relatively limited literature on the investment available in the housing sector.

The analysis shows that in a representative selection of countries, investment into residential property has performed well and in many cases better than commercial property in terms of both total return and the risk-adjusted return. It is apparent that for many countries, the income component of total return was of greater importance than capital growth, though over the 15-year time horizon considered, income returns have been tending downwards in the sector and flat-lining from circa 2012-2016. Capital growth was much more volatile but also showing a tendency to stabilise in recent years. The analysis indicated that investment in residential property produced no further, additional diversification benefits beyond that expected for the property sector as a whole.

For Ireland, using a weaker evidence base, high levels of return were observed for residential property, though lagging behind offices. High rates of volatility in housing were also apparent, possibly reflecting the lack of a significant institutional investment market in this sector in Ireland and resulting in greatly reduced risk-adjusted returns. On this basis, Irish residential property performs poorly relative to the set of comparator international countries. Furthermore, the surveys of institutions within Ireland showed mixed perceptions of residential property as an investment asset though Irish pension funds expressed an interest in investing in the

residential sector. However, it was apparent that State underwriting of income was desired for any investment in social housing.

Specifically, the chapter has established the investment context within which the possible establishment in Ireland of a fund to enable institutional equity investment in properties will have to operate in. An evaluation of the Issues concerning the established of a residential property fund are specifically considered in Chapters 7 and 8 of the thesis.

CHAPTER 7: ASSEMBLING THE FUND MODEL

7.1 Introduction

This chapter begins to apply what has been learned in the research to date concerning the objectives of this thesis. Using a range of methods, the chapter tests the hypothesis that was put forward in Chapter 1 and begins to build a functional model for a Fund that can provide social and affordable housing. The hypothesis was that a Fund can be created using institutional finance to provide housing for low- and moderate-income households. The principle is that the Fund extends a long lease to an Approved Housing Body (AHB) on FRI terms for a period of 25 years. The rent is based on the cost of developing the units, not the market price. The AHB then sublets approximately 25% of the units to social tenants using existing State supports. The balance are let at affordable rents, below the market level to key worker households. The Government provides a step-in or other similar form of guarantee arrangement, whereby they will underwrite the lease in the event of failure of the AHB. This gives confidence to the investors to back the proposition, and secures the funding at a yield below typical property levels. While the thrust of this research is that institutional finance can be brought to bear to fund social and affordable housing, thus producing a reliable, low-yielding investment and a long-term sustainable and stable source of housing supply, it is also submitted that housing systems are deeply path-dependent meaning that the potential for radical and disruptive change is limited. Housing systems are embedded in institutional frameworks that bring the market, government, political and a range of other social and economic constructs together. This analysis is required to understand the components of a model that is conducive to investment by financial institutions.

The aftermath of the global financial crisis left Ireland in the deepest financial crisis that it had experienced in its history. Drastic reductions in public spending were required, and consequently there was greatly restricted capacity to fund housing from capital resources. Government policy had been on a long-term trajectory towards revenue-funding of social housing, but the post-GFC environment required a complete rethink of housing policy, and it is in this context of a need for new methods of provision that this model arose. The purpose of this chapter to assemble a model that responds to each of the requirements of investors, government and end user tenants. Accordingly, it should be seen as an idealised structure that

can then be used to test and explore each of the elements of the institutional framework and the path dependencies of the Irish housing system, especially social housing.

Barriers to institutional investment in housing generally are greatly magnified when it comes to social housing where perceptual problems around management, maintenance, and concerns around future values combine with even lower yields than general market housing, and lack of any precedents for such investment. This thesis argues however, that the long-term, steady returns with modest uplift in rents that social and affordable housing can produce should be well-suited to institutional investors. It sets out to develop a model that can produce these characteristics, in particular to pension funds. A further attraction of social housing should be the government backing of the system through revenue payments. However, if pension funds are to be drawn to a new asset class, it is necessary that the returns are better than sovereign bonds. By way of guarantee or backstop, government can address a number of the barriers to investment by providing an additional degree of confidence to investors and should such backing by government be available, the yield expected should be lower than would pertain if the offer was market-based.

This chapter specifically explores how an instrument that meets the needs of pension funds and regulators might also meet Irish government imperatives to produce investment in social and affordable housing. The theoretical underpinning of the work is tested in a real-world environment and the model is refined to address market circumstances and in establishing an entity to provide housing for low-income households, the development of a Fund fulfils the final objective of the thesis.

7.2 The Fund Model

The Fund model postulated is as follows:

- A Fund is created from institutional sources to develop social and affordable housing;
- Investment in the Fund is eligible for “permissible asset” status for risk reserve purposes under Irish pension fund regulations;
- The developments are leased to an Approved Housing Body for 25 years at a rent based on 5.5% of the cost of producing them, i.e. at a rent of between 60–75% of the market rent (the cost rent);

- The rent will be reviewed in line with the CPI rental index every four years (or the CPI index), thus its relationship to market rents(inflation) is maintained – remaining at a fixed proportion of that market rent (or linked to inflation);
- The AHB lets approximately a quarter of the units to social housing applicants and receives the existing government support arrangements in respect of these, e.g. 80–92% of market rent plus the differential rent paid by the tenant;

The balance of the units:

- let to eligible “key worker” households who pay a rent between the cost rent and the market;
- A tripartite agreement is put in place between the Fund, the local authority and the AHB that if the AHB fails, the local authority will step in, and
- make good on the term of the lease;
- replace the AHB manager;
- The AHB can exercise three options at the end of the lease:
- Hand back the development with vacant possession;
- Renew the lease on identical terms;
- Purchase the development on terms agreed at the outset of the lease.

The purpose of the proposed Fund is to provide social and affordable rental housing at the lowest possible rents on a sustainable basis. The concept is based on the premise that the housing is made available at the cost of production, rather than the market rent or price. It is estimated that this can result in rents at least 20% below market and that those costs would be minimised by the techniques described below. It is a further premise that the properties must be mixed tenure of social and discounted market (affordable) rents. This achieves three vital objectives. First, it facilitates the development of projects at scale, thus enabling institutional-level investment, economies in design, construction, and delivery. Second, it overcomes the long-standing problem of delivery of social-only housing at scale which is problematic for the sustainability of communities, and can lead to segregated or stigmatised communities. Third, this model enables the creation of an intermediate tenure of affordable housing in the urban areas where affordability is most likely to be problematic for key worker households.

The putative tenure mix proposed for the model is 25% social and 75% market housing to meet government policy objectives. However, this will be tailored to the circumstances of each

location and project. The key criterion is that the mix of tenants must contribute to the long-term sustainability and value of the property which is the underlying security of the investors. The cash flow from the property will be made up from a blend of rental schemes. Social tenancies will be supported by payments from State schemes such as Housing Assistance Payments. The differential rent charged to the tenants will go to the AHB operator and affordable tenants would pay a discounted market rent.

The success of the model depends on achieving maximum savings and efficiencies in every facet including low-cost, long-term funding; state support in the form of guarantees and land; effective management and risk mitigation; and effective and efficient procurement. These encompass the McKinsey Principles (McKinsey, 2014) as to the key drivers of affordable rents (Chapter 4).

Securing finance for a project such as this presents some additional complications over and above simple market transactions due to the lower yields, novelty, perception and political risks. The first challenge is to find investors that will commit significant long-term equity type funding at rates which are at the low end of the real estate yield spectrum. The Pension Funds survey in Chapter 6 indicated that eight of the larger Irish defined-benefit pension schemes were willing to invest in a suitable fund given the correct structures and terms. It is clear that the yield and general investment profile of the proposed investment are not attractive to traditional property funds. However, the particular characteristics of the proposition are ideally suited to a defined-benefit pension fund which requires a low risk profile, and the kind of steady cashflows closely related to incomes in the wider economy that the Fund offers. Accordingly, those pension funds became the specific target investor for the DADF. In tandem with this, the Ireland Strategic Investment Fund (ISIF) was identified as a partner. ISIF is an Irish sovereign fund established with the mandate of investing on a commercial basis in projects that support economic activity and employment in Ireland. With €7.9 billion under management and a strong reputation for excellence in due diligence, ISIF bring not alone capital to the Fund but also credibility and assurance for other investors in what remains a novel and untried market.

ISIF has a long investment time horizon and therefore can act as a permanent source of long-term capital. It has flexibility up and down the capital structure and can meet changing capital needs and gaps in the marketplace. The fund's "double bottom line" approach to investing requires all transactions to generate both risk adjusted commercial returns and economic impact. Indications from ISIF (in meetings between the author and ISIF managing director) are

that the provision of social and affordable housing fits well with the ISIF mandate and that the yields and returns contemplated would be acceptable. However, ISIF will only invest up to 49%, and require the balance to come from other investment partners. This marries well with the pension funds where both parties gain a strong co-investor. A formal proposal for investment in the DADF was made to the ISIF board in May 2016.

In designing the investment product, the focus is to tailor an instrument to the needs of the pension funds and ISIF that also had to meet the objectives of the Fund in producing social and affordable housing. The return needs to be above sovereign bond yields and Irish Government supports will reduce the risk. However, to produce housing at low cost, the yield also needs to be relatively low. Yields from commercial property and especially other large-scale residential investment opportunities also have a bearing. IRES REIT, which is the only purely residential investment vehicle reported a gross yield at end 2016 of 6.6% which would give net yield of c.5% to 5.5%. Hibernia REIT reported that its acquisition of Dundrum View, a luxury block, was on a net basis of 4.7%. With a 1.25% provision for management and a 4.25% coupon on the loan notes, the figure of 5.5% of all-in costs was arrived at as the cost-based rent to AHB operators of Fund projects. This figure reflects the return that the pension funds require, the cost of operating the fund, and what the market will tolerate bearing in mind competition now or in the future.

A further issue that emerged from discussions with pension experts was the regulatory status of an instrument issued to the pension funds which related to the annual actuarial valuation test for solvency of each individual fund. Under pension fund regulations holdings in shares, property and other such “risky” assets are subject to a 10% discount against their market value in the preparation of solvency tests. In other words, a property valued at say €1 million in the open market must be valued in the regulatory solvency test at only €900,000. However, holdings in State-backed bonds are not subject to this discount. Accordingly, the hypothesis was formed that if a Fund could be created that would issue bonds approved by the Pensions Regulator with a State guarantee, the indexed returns would be sufficient at about 4–4.5% to give the pension funds the desired investment characteristics, *viz.* an acceptable yield, a prescribed asset for regulatory purposes and with the security of government backing. However, the instrument would be a debt instrument and not a property or equity holding.

From the viewpoint of flexibility in the day-to-day operation of the Fund, the most desirable form of investment by the pension fund would be by simple equity subscription. However, for

the purposes in hand, such a form of investment has distinct drawbacks. First, in an unlisted entity, it brings liquidity issues. Second, pension fund exposure to real estate is at a very low level (typically around 4%). If the DADF proposition were viewed by pension funds as simply another property investment, then any allocation would have to come from this very small portion of the funds available. Equity would obviously be treated differently from a bond by the funds and by the Regulator and Fund actuaries. While it is more complex and multi-faceted, a suitably structured loan note or bond better meets the exigencies of the circumstances, as it can be structured in such a way as to meet the requirements of the investor and the regulator, while producing the same net effect to the Fund.

The Regulator was positive about the suitability of the investment for pension funds indicating a willingness to consider a properly worded amendment to the pension regulations, but pointed out that framing such an amendment would be difficult. It was also clear that a decision to amend the regulations lay with the Minister for Social Protection, not the regulator. Solicitors, A&L Goodbody were engaged to advise on how a regulatory change could be brought about that would comprehend the bond for social and affordable housing purposes, but would not be so broad as to encompass investments that would devalue the purpose of the prescribed asset concept. If such an amendment could be formulated, it could be submitted to the Minister for consideration.

Also, it was clear from engagement with the pensions industry that it was important their investment advisors and actuaries understood and supported the investment concept. The process of presenting it to these advisors could not be set in motion until there was clarity as to the Fund model and legal structure, the precise terms of the bond to be issued to the pension funds, and the nature of the State support that would underpin the investment.

All entities dealing in such large sums of money in a highly sophisticated commercial and regulatory environment require a robust and carefully chosen legal structure. The Fund under discussion would be entering into agreements with private, voluntary and public sector actors. It would also operate in a deeply contested political and policy space, where the involvement of private finance in the provision of low-income housing is not fully accepted. The Fund will operate over a very long time horizon, and accordingly would need to be flexible and capable of change. Property is a relatively illiquid asset, whereas pension funds and other investors will require liquidity.

Advice from legal, pension and fund advisors was that the vehicle could best be established as a normal Irish private limited company (using the new Designated Activity Company (DAC)) which would then avail of the section 110 tax status under the Taxes Consolidation Act 1997. A DAC company is a new structure introduced under the Companies Act 2014. The significance of this structure for the Fund purposes is that permits debentures to be listed on a debt market, and its activities are confined to specific activities. An s.110 company is an Irish special purpose vehicle that is restricted to managing and holding “qualifying assets”. If the company availed of s.110 status (and the conditions would not be onerous for this type of structure), then it would be entitled to deduct all bond interest payments from its income to minimise its taxable profit and to pay profit participating interest to its investors without any re-characterisation of the interest as a distribution.

Any notes issued by the company could then be listed on the Irish Stock Exchange to allow payments to be made to non-resident investors without any Irish withholding tax. This would involve the preparation of a prospectus-like document for the notes which would give further comfort to investors as to the terms of the notes. The company would not be regulated by the Central Bank of Ireland, albeit that the s.110 company structure is very widely used and is understood and recognised in the investor market, and the prospectus document would be approved, listed and regulated by the ISE. It should be noted that a s.110 company would not be able to hold the property assets itself and so a subsidiary would need to be established to hold the assets (with funding being provided by the parent through a bond or loan). However, even with such a double company structure, the absence of a Central Bank authorisation requirement would mean that this option should be a cheaper alternative to the fund option and could be completed in a far shorter timeframe.

Importantly, in the instant case, the company would be owned by a not-for-profit/charitable entity. This would avoid having to issue equity/shares to investors (which could trigger prospectus rules and other legal issues) and would hopefully ensure that the funding vehicle is managed on an impartial/not-for-profit basis, to the ultimate benefit of the key workers/tenants.

In considering the merits and drawbacks, an alternative option is the ICAV (Irish Collective Asset Management Vehicle) which is a form of Qualifying Investor Alternative Investment Fund (QIAIF). Essentially it is a standard investment vehicle for collective investment schemes – such a fund is regulated by the Irish Central Bank and is primarily intended to hold financial assets. Although stamp duty and VAT continue to apply as per standard property transactions,

all income and capital gains are tax free (gross roll-up). The treatment for taxation of investors differs between resident and non-Irish residents. In the latter instance no withholding taxes apply on income distributions or redemption payments made and investors are exempt from tax on sale of shares in the QIAIF. The platform is capable of holding assets on a collective or individual, ring-fenced basis and can facilitate various forms of individual, company and syndicated ownership structures (with or without debt and collateralised obligations) through the various sub-fund mechanisms.

Some important differences to note compared against the s.110 structure are:

- An ICAV structure is far more expensive to establish and maintain with an initial base cost of c. €300,000 per annum;
- The ICAVs primary attraction – significant tax efficiency – is largely replicated by the s.110 route - save for CGT and stamp duty;
- In the event that the Minister/Pension Board approves a social and affordable housing based prescribed asset, it is highly likely that it will need to involve the bond approach. No prescribed asset has ever been based on another instrument and ICAVs cannot issue bonds;
- ICAVs and their associated AIFMs are heavily regulated bodies with significant ongoing obligations to the Irish Central Bank in terms of reporting, administration, depository and so forth. Pension funds are unlikely to have major concerns about the s.110 company engaging with a non-regulated management company as opposed to an AIFM and the notes will be listed through the ISE and therefore regulated in another format in any event;
- Investments are not as liquid when applying the loan note/ICAV approach. Essentially while bonds can become a tradable market over time – like any other bond – the loan notes would only be redeemable under specific circumstances including either through sale of the note to a third party or sale of the underlying security and redemption of the loan;
- ICAVs have become a recognised ownership vehicle for large-scale property investment but are primarily intended for financial instruments not real estate and therefore may be subject to future revision.

At the Fund level, a specialist external asset management company will be appointed on a fee basis until the Fund reaches the point where self-administration is viable. This mechanism of

a fund-management entity was used by the three Irish REITs, and is therefore familiar to the investment industry in Ireland.

7.3 Government Support and Guarantee

The proposed DADF housing model cannot work without State support which potentially could come in several different forms. For example, a form of income guarantee is required to secure funding from investors in a new asset class where yields are not especially high, and where there are perceptual risks (whether real or perceived). There is currently no form of intermediate tenure between social housing and the private market. This tenure facilitates the development of social housing in balanced schemes along with social housing. Government has committed to introducing a pilot affordable rental scheme, but pulled back from one model, before indicating that the issue would be put to an expert group on cost rental (speech by Bairbre NicAongusa, Assistant Secretary, DHPCLG to the Housing Practitioners Conference, May 2017). Also, the model requires the existing government leasing arrangements for social housing (the payment and availability agreement)

A secondary tier of supports is required if the benefits of the Fund model are to be optimised to the benefit of consumers (government, AHBs and end users). If the cost-based rents are to be significantly cheaper than market rates, then State land, at little or no cost needs to be made available. Further, the change to the pensions regulations referred to above can greatly ease the passage of pension fund investment into social and affordable housing.

The pension fund survey (Chapter 6) suggests that some form of government guarantee over the rental income from social and affordable housing is required to draw institutional funding into the sector. While the guarantee is essential to secure the funding at scale, it can also ensure that it is made available at a cheaper rate than might be the case for market-based housing or commercial real estate investment. The guarantee also ensures that the units remain in use as social and affordable accommodation, and can enable the State to set the criteria for access.

Guarantees can come in a variety of forms. Internationally (UK and the Netherlands), it is more common for borrowings to be guaranteed, thus reducing the cost of funding rather than income guarantees. In an Irish context, the need is for new funders and suppliers of low-income housing. There is enough capital available to the existing voluntary social housing providers to absorb their capacity for new development. Local authority borrowing has direct balance sheet implications and is the subject of strict ceilings at present. Accordingly, the need is to find fresh

sources of capital and development potential from the private sector. This need is particularly acute given spiralling rents (Lyons, 2016), and contracting supply in the face of rising demand (Housing Agency, 2015). The form of guarantee sought in the instant case is a step-in agreement where the State (probably via a local authority) agrees to take on the lease in the event of failure of the operator AHB. The investors' income would be assured while a new operator was put in place, and the scheme put back in good financial order. Alternatively, the development would have to be handed back in good order with vacant possession after five years. An alternative form of government-implied guarantee would be a direct lease from the Fund to the local authority either alone or as a party to the lease with an AHB.

The principle of State guarantees for social housing borrowing is well established in other countries as noted in Chapter 5. However, the concept of government guarantees of private sector activity is problematic in Ireland. The banking guarantee of 2009 is widely seen as pivotal moment in the country's economic collapse. Aside from the perceptual effects of the crash however, the constrained fiscal and economic environment that still pertains has placed strict limits on the capacity of the State's balance sheet to take on new liabilities. Accordingly, it is clear from interaction with public officials that the concept of any form of guarantee by the Irish Government is viewed with extreme caution, if not scepticism. While the Social Housing Strategy (DECLG, 2014) aspires to extensive private sector provision of social housing, both through direct HAP leasing and through established AHB and local authority channels, the Government is not sufficiently seized of the requirements to deliver that aspiration at the scale required. The Strategy seeks to meet most of the social housing need through simple market-based mechanisms, but references to "off-balance-sheet" mechanisms, cost rental, and maximising use of State land for social housing purposes are not accompanied by sufficient action points or policy details to ascertain how the State envisages this housing will be delivered.

The subject of government guarantees to secure private finance for social housing was comprehensively dealt with in a report from the European Investment Bank (EIB):

"Given the novelty of the Irish social housing market with respect to the use of private finance, and the risks around limited and developing regulation, it is likely that a government backed guarantee is required to enable large investors, such as the EIB, to provide long term fixed rate attractive financing

and to further develop the market (particularly for larger institutional investors).” (EIB, 2014, p.23)

In March 2015, the government established the Social Housing Proposals Clearing House Group (DECLG, 2015) to examine private sector proposals for investment in social housing. Ostensibly, the purpose of the exercise was to screen proposals, to provide a preliminary assessment and to channel promoters to the appropriate public sector agency. However, in its final communication (letter to author of 8 December 2015, p.2), the Group stated:

“In the course of its work, the group has considered the potential of a number of models proposed to provide an off balance sheet funding source. Being able to access funds in a manner that is off balance sheet or neutral from a General Government Balance sheet perspective is considered to be an essential prerequisite in progressing proposals for new funding models”.

The State’s position therefore seems to be that all *new* methods of social housing delivery involving the private sector must be off-balance-sheet. It is accepted that existing methods such as borrowings of the State-owned Housing Finance Agency are fully on the balance sheet. The question as to how private finance can be brought into social housing without balance sheet implications remains unanswered. The Clearing House engagement with the DADF is described more fully below, but while the process was inconclusive, it appears that the task of sourcing private sector finance has been delegated to the NDFA which will face the same challenge.

At its root, the problem appears to be one of scale. The Irish Government actively sources and uses private sector tenancies either as a form of social housing support or via rent supplement. The availability agreement mechanism for social housing sourced from the private rental market has guarantee-like characteristics, as it is an undertaking from the State to pay the rent. In the case of NARPS, the NAMA special purpose vehicle established to deliver social housing, a continuation agreement, provided by the local authority as an underwriting of an AHB lease is precisely the instrument that could provide the State-implicit guarantee to give comfort to institutional investors.

Significant additional housing cannot not be provided in an urban environment without significant developable land in the required locations with key issues being the price, availability and suitability for the provision of affordable housing. The Irish planning system

identifies, zones and services land required to carry out new development by third parties. It is left entirely to the market to bring that land forward for development. The State and local authorities can legally acquire land and hold it in anticipation of development and government agencies acquire land over time to carry out their statutory functions. However, government agencies in general have not been good at recycling surplus property assets, resulting in land held at nil or low book cost, but with a lot of development potential. Much of this land, and other local authority holdings is likely to be suitable for housing development. This includes land held by the Housing Agency under the Land Aggregation Scheme (housing land brought into central government control from local authorities at the onset of the economic crisis). Critically, this land needs to be seen as a base for the development of a housing *resource*. If it is used simply to produce local authority housing or if it is disposed of at market value, a real opportunity to create new models of housing delivery and a more sustainable and diverse public housing system could be lost.

The Department of Housing Planning, Community and Local Government has prepared and published an inventory of surplus land held or controlled by the state that is suitable for housing. A number of pathfinder sites have been identified to test the market for joint ventures between the private, voluntary and public sectors for mixed tenure development of private and social housing with some references to an undefined affordable or cost rental tenure (DHPCLG, 2017). An illustration of how land could be used innovatively for housing would be by disposing of land on the principle of using the land value to produce cost-based rents (NESC, 2014). In other words, the bidding criteria are on the basis of the number and quality of units and – crucially – the rents that will be charged. For example, a plot of land suitable for social and affordable housing is put on the market; investors, AHBs and builders form consortia to bid; bidders submit designs, specifications and a proposed initial rent for the completed units; the assessment criteria are the quality of the housing and the rent charged to the occupiers for a 25-year period. Part of the terms of the offer would be the promise of Availability/Continuation Agreements for the completed housing.

The closer land is to shovel ready, the more investor risk can be mitigated and the cheaper the rents will be. Obviously, the success of such a model depends on maximising efficiencies in procurement, so the precise mechanism would need to be carefully calibrated, but – even to the point of having relevant consents (planning permission/Part 8) in place – the State can optimise use of land, and achieve better value from the market by lowering risk, and thus reducing cost.

By way of precedent, when the International Financial Services Centre (IFSC) was being developed in Dublin on State-controlled land, the title of the underlying land was not transferred to developers/investors until the conditions relating to the proposed development had been fulfilled – in particular building in the format agreed. When successfully built, the title given was a 200-year renewable lease at a nominal rent but with rights to acquire the freehold over time. A similar structure could be applied for land provided for cost-based rental housing. The lease terms would cover the obligation to charge cost based rents, rent indexation, insuring and repairing terms, and renewal rights. However, the terms of such leases must not be such so as to undermine the intrinsic value of the investment.

Regarding development levies, the State has a choice as to whether to charge levies for such developments and pay for them through the rents, or to waive them and see the reduction reflected in the rents. Using a standard development appraisal, the cost-based rent that would be charged for a two-bedroom apartment on the basis of a free site, zero levies, no developer's profit and high-volume efficient construction is presented in Table 7.1. The rent is highly sensitive to costs. Where construction cost is minimised at €150k per unit it is possible to lease at a rent that is almost 30% below the market, but if construction cost is higher, or any further outlay is incurred the rent goes up significantly (Column 1, Table 7.1). As illustrated (Column 2) if construction cost increases by €25k to €175k per unit (which is probably the going rate for small schemes without economies of scale) that the rent discount is almost eliminated. Using the same base calculation and where the provision of apartments are left to fully market forces and without scale efficiencies higher construction costs would apply (Table 7.2).

Table 7.1 Development Appraisal: Construction costs minimised

Construction cost of new unit including site infrastructure			150,000	175,000	200,000
Construction Fees	5%		7,500	8,750	10,000
Finance on construction (months) (rate)	5	5%	3,125	3,646	4,167
Levies and Charges	Nil				
Site cost on basis of (cost per acre)	Nil				
Other fees , stamp duty, legal, compliance	5%		7,875	9,188	10,500
Total outlay			168,500	196,583	224,667
Fund set up costs			5,055	5,898	6,740
Vat at 13.5% on cost	13.5%		22,748	26,539	30,330
TOTAL			196,303	229,020	261,737
Net rental to DAD fund %	5.5%		10,797	12,596	14,396
ADD margin For AHB to operate and manage building	20%		€2,159	€2,519	€2,879
Total annual rent charged to tenant			€12,956	€15,115	€17,275
Rent charged to occupier - per month			1,080	1,260	1,440
Open market rental value = say Tallaght			1,350	1,350	1,350
Discount per month			270	90	-90
or %			20%	7%	-7%

Table 7.2 Development appraisal fully let to market forces

Take One New 75M 2 bed apartment in a scheme of 100 units - no free site, paying levies and developers profit.					
			€	€	€
Construction cost of new unit including site infrastructure			150,000	175,000	200,000
Construction Fees	5%		7,500	8,750	10,000
Finance on construction (months) (rate)	5	5 %	3,125	3,646	4,167
Levies and Charges			10,000	10,000	10,000
Site cost on basis of (cost per acre)			20,000	30,000	40,000
Other fees , stamp duty, legal, compliance		5 %	7,875	9,188	10,500
Total outlay			<u>198,500</u>	<u>236,583</u>	<u>274,667</u>
Fund set up costs			5,955	7,098	8,240
Developers Profit at 15%	15%		29,775	35,488	41,200
Vat at 13.5% on cost	13.5%		26,798	31,939	37,080
TOTAL			261,028	311,107	361,187
Net rental to DAD fund %	6.5%		16,967	20,222	23,477
ADD margin For AHB to operate and manage building	20%		€3,393	€4,044	€4,695
Total annual rent charged to tenant			€20,360	€24,266	€28,173
Rent charged to occupier - per month			1,697	2,022	2,348
Open market rental value = say Tallaght			1,350	1,350	1,350
Discount per month			- 347	-672	-998
or %			-26%	-50%	-74%

In the first example (Table 7.1) the developer's profit is removed through provision of "free" land with appropriate development consents. Further risk to the investor is removed by rents assured under availability agreement structures. More savings can be achieved if economies of

scale in construction cost and time can be achieved by building in volume; that requires tenure mix to render the developments viable – both economically and socially. The rents show a discount to market of 20%.

The appraisal shown in Table 7.2 indicates that if the full market price for land is charged, levies paid, a normal developer's profit of 15% applies and net market yields of 6.5% (non-prime locations), then the rents required to justify such development would be substantially above prevailing market levels (€1,350 per month) and getting towards €2,000 per month. In this scenario (Table 7.2), developer's profit at 15% must be absorbed and the yield is 1.5% higher – with consequences for rents.

The essence of the matter is that the State can use the market in a different way to reduce cost to itself and to achieve its objectives. But exposure to the market on its own terms leaves the State at risk of greater uncertainty and higher long-run costs.

7.4 Management

The report by McKinsey (2014) identifies operations and maintenance as one of the means of improving housing affordability. Improving energy efficiency is one part of this process. However, more important for the present purposes is “reducing maintenance costs and improving asset management”. Professional and efficient management requires scale and a long-term view of the business of managing the housing projects.

The Irish private rented sector is characterised by a relatively high degree of tenant mobility with mean tenancy length at just over two years (Housing Agency/PRTB, 2014). High turnover of tenancies leads to increased management and maintenance costs due to additional vacancy and letting costs, and higher than necessary reinstatement or refurbishment expenditure. An institutional investor in rental housing is principally interested in steady and even cashflow, rather than jerky and uncertain rents. While the impermanency latent in the system may suit small-scale investors speculating on capital growth, it is of no particular benefit to longer term players. Larger management organisations working with relatively standardised units in large concentrations can avail of a range of scale efficiencies in proximity (on-site management), procurement and purchasing. Experienced operators with a high degree of familiarity with the physical fabric should be able to optimise the performance of buildings, while larger organisations should carry less overhead per unit managed than smaller operations. The largest Irish approved housing bodies manage approximately 5,000 units.

Housing management in Ireland tends to be sharply bifurcated between private and social housing operators. While some blurring of these lines has occurred in recent years, property management generally falls between private entities self-managing or subcontracting, and local authorities and AHBs dealing with social housing. Most private housing management is concerned with apartment complexes comprised of owner-occupiers and buy-to-let investors. These management structures have been created of necessity to deal with management of communal areas and the external physical fabric of the buildings. The legislative code for most of this activity is the Multi-Unit Developments Act 2011, a statute solely concerned with owner-occupiers and with the service charge, sinking fund and governance of such schemes. This is the Irish parallel of condominium legislation that pertains elsewhere in the world.

The emergence of larger-scale investors in residential property in recent years has led to the retention of these same housing management companies who have the experience and expertise in dealing with large residential complexes. Some of these new investors provide their own management. The principal focus of such management is rent collection, maintenance and ensuring the smooth running of the developments. Social housing management typically brings more challenges. The residualised nature of the tenure, the highly segregated natures of many local authority estates, and the frequent lack of economic capacity in many cases, makes management a much more complex matter. Kenna (2011) observes:

“The management of local authority housing involves a mixture of law, policy and practice. Indeed in many ways the law only provides a minimalist framework and sanction of last resort, while a plethora of policies and institutional norms shape the decisions taken in this area. Since local authority housing is a residualised tenure, many of the critical issues of health, poverty, social exclusion and crime interact with housing policy and practice”.

Since the early 1990s, there has been a conscious shift in policy to focus on more strategic and management issues in social housing rather than simply the bulk provision of accommodation (Department of Environment, 1991). Since then, there has been an aversion to development of large social housing developments, and an increased role for non-State actors such as housing associations in the provision of housing. Management has also become a focus of housing policy and the shortcomings of earlier decades have been the subject of government remedial action (Norris, 2003; O’Connell, 1999). Norris and Redmond (2005) report that attitudes to

management changed radically from the mid-1980s and that greater focus has been brought to management of the housing stock.

All local authorities in Ireland have housing departments which manage their housing stock and the response to social housing needs in their functional area. However, there is a wide disparity in the performance of local authorities. In 2014, re-letting times for units range from 10.17 weeks in Laois to 56.39 weeks in Roscommon. Re-let costs are as low as €1,267 in Cavan and as high as €35,000 in Cork City with an average of almost €10,000. While allowance must be made for varying housing stock, circumstances, age and condition, such disparities are likely to reflect widely divergent management practices. Median maintenance costs are €758 per annum while the outliers are found at €256.40 in Carlow and €4,075.28 in Westmeath. Vacancy rates range between 0.4% and 8% (NOAC, 2015).

The long-term policy response has been to alter the role of local authorities from being the sole provider of social housing, to being an “enabler” or central agency for housing provision from local authority stock, AHB accommodation, and units leased from the private sector via a succession of schemes (from RAS to HAP). AHB management is evaluated on a self-selecting basis by their representative association, the Irish Council for Social Housing (ICSH). In 2014, 49 housing associations participated in the annual survey. That reported an average period of 13.4 weeks to re-let units, compared to 31.78 weeks in local authority stock. Extreme caution needs to be applied to these comparisons, due to methodological and other variable factors. In its own right, the AHB sector appears to reflect efficient management practices, subject to the caveats above. Rents collected represent 99.9% of those due. Arrears in 2015 were 5.1% of rent receivable. Repairs and maintenance costs range from €393 per unit affected for response repairs through to €555 per unit affected for cyclical maintenance (ICSH, 2015).

There is no systemic data available about private residential management, and in any case comparisons are extremely problematic between local authority, voluntary and private stock. Circumstances such as lengths of tenure, service charges, rent levels and many other factors are so varied that comparison needs to be very selective and cautious. Typically, private management costs range from 1% of rents collected to a maximum of 20% for difficult or management intensive properties. In the case of Irish local authorities, it would appear from some of the NOAC (2015) figures, that the rents in some cases may not cover the cost of maintaining the dwellings.

Good housing management requires two mutually reinforcing strands: property management and asset management. The former requires an operational management tool that deals with rent collection, allocations, estates, repairs, tenant enquiries and contractors. The latter – asset management – is a strategic planning tool to protect, enhance and grow the value of the asset, driven by tenant feedback issues and stock condition issues. For a private landlord the value of property is in its potential for wealth generation: the rental growth and capital appreciation of the asset. For a social landlord, either a local authority or an AHB, the long-term value of the property is its utility value in providing housing for a household. Its asset value is secondary. However, good management is crucial to both, as a well-managed asset will be of benefit to both investor landlords and end users. AHBs are in a good position to act as operators of DADF developments. They have a more complete skillset in residential property management than conventional commercial entities. They are used to dealing with the particular needs of low-income households. The larger AHBs are well governed, adequately resourced, sufficiently commercially aware, and progressive in outlook to take on commitments of this nature.

Scale is fundamental to the DADF concept, as institutional funding is only available in volume, and the cost-based model requires maximal efficiencies in construction and delivery of units. Tenure mix is also crucial to the success of the model in terms of securing the investment, but also with regard to management. Pension fund investors made it clear that they would not invest in what they saw as traditional social housing. This is largely for perceptual and reputational reasons (social housing appears synonymous with “sink” estates like the failed 1960s Ballymun scheme and other severely challenged large-scale housing developments). Investing in such properties is not a tenable proposition for pension fund trustees. While DADF does not exclude private renting tenants, it does exclude owner-occupiers.

The question of whether neighbourhood effects are of any especial benefit to poorer households is highly contested. Cheshire (2007) argues that creating communities of mixed income and social background does not necessarily improve outcomes in terms of poverty and exclusion, and that unless strong poverty-mitigation measures are put in place in addition to mixed housing, outcomes will not improve. Established Irish housing policy is to “counteract undue segregation in housing between persons of different social backgrounds” (Planning and Development Act 2000, s.94(3)(c); Housing (Miscellaneous Provisions) Act 2009, ss. 15, 79). The logic of aspiring to more spatially integrated housing is that mono-tenure estates are more

likely to replicate patterns of poverty and disadvantage, and reduce potential for improved life chances and attainment for poorer households.

In the face of this ambivalence on mixed tenure, a paper by Lawton (2015, see Appendix 2) was commissioned as part of the research process. Lawton concluded that

“The fostering of a successful socially mixed development is premised on the promotion of interaction between different actors at various phases of the development As is outlined in this paper, there is a significant increase in the level of attention towards management of housing developments. While this paper has focused particularly on housing associations, there is also increased potential for interactions between these bodies and privately oriented services management teams. However, given their understanding of the diversity of needs of social housing tenants, housing associations can play a central role in the long-term success of a socially mixed housing development. Bringing the different elements together presents significant challenges for a successful housing development. However, drawing upon experiences from other places, and experiences garnered from the Irish context, it is feasible to develop an integrated model of housing with a long-term viability.”

For these reasons, DADF developments will be tenure mixed. “Social” tenants will pay the relevant differential rent, which will be supplemented by government payment and availability agreements. “Affordable” tenants will pay an economic rent which will be abated from the market rent through the land and guarantee State subsidy. By agreement with the State, the model could accommodate market tenants. The underlying property investment is supported by the principles of tenure mix and strong management. Successful developments will grow their value both in economic and social terms.

The ideal situation for setting up DADF is to have a ready supply of completed, unoccupied building available to purchase which would eliminate time lags and reduce the associated development and procurement risk. Whilst the opportunity to buy completed apartments blocks remains a possibility, much of the stock left over from the market downturn has now been completed and sold, and the rapidly recovering economy has led to rising capital values. If the fund model is to work, it has to procure new housing schemes. This involves acquiring land

and commissioning construction. Pension fund investors will not themselves take development or construction risks and will expect the fund to deploy substantive risk mitigation techniques. Accordingly, the procurement process need to be very carefully structured to achieve this.

In property development the stage of greatest risk is in bringing land into development, ensuring that land is serviced, and the appropriate regulatory consents are in place. This is essentially a land speculation risk – anticipating that the money spent on the site can be recovered through development. The principal cost factor here is time where delays in infrastructure delivery, or unforeseen planning delays lead to additional cost. “Shovel-ready” land where consents are already in place can remove this risk. In the instant case, all land risk costs can be removed if the State disposed of land with the benefit of development rights (planning permission or Part 8). Construction risk can be mitigated by contract, careful planning and design, and detailed investigation. For a higher level of reward, a builder will be prepared to assume all construction-related risks under a “turnkey” contract. The Fund model involves partnering with experienced and well established builder-developers with a track record in turnkey fixed-price delivery, who will work with the Fund to ensure efficient delivery.

7.5 Construction

The cost, quality, and predictability of the construction procurement and delivery process is of key importance to the effective operation of the proposed Fund. At the outset of this study, and when formulating the hypothesis, an initial study was commissioned to establish approximately how much it would cost to deliver a notional 100-unit apartment development on a perfectly regular notional one-acre site. This was a collaborative effort between the researcher, an architect, and a large established building contractor (Sisk). The model project produced two four-storey apartment blocks, one with surface parking, the other underground car storage. The blocks were produced to the Department of Environment, Heritage and Local Government 2007 standards, which it should be noted were less exacting than the Dublin City Council standards in force at the time of the study in 2015. The estimated cost per unit was €150,000 assuming no land cost or levies for a non-basement block. This produced a cost-based rent at 5.5% of €8,250 p.a. To this needs to be added 20% for management and operation costs, resulting in a monthly rent to the tenant of €825.

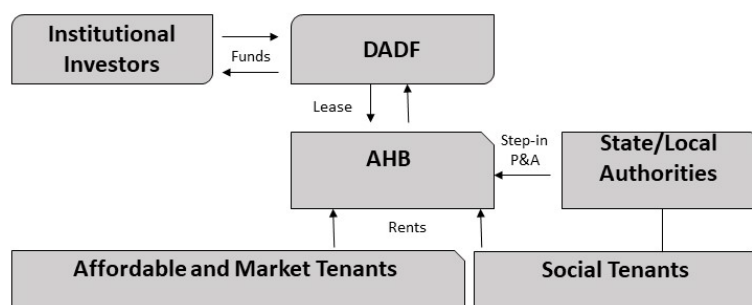
Subsequently in early 2016, a further, more detailed study was undertaken to examine what efficiencies in construction were possible using different construction approaches and also

having regard to the changes in design standards which came into force in early 2016. A multi-disciplinary team involving the researcher, together with construction professionals, architects, and quantity surveyors worked to a brief of determining the most efficient way of delivering 1,000 apartment units per year, maximising scale economies, optimising design, and availing of the most efficient construction techniques. This study took an in-depth approach and looked at different delivery mechanisms ranging from conventional construction to system building and various modular approaches including the use of steel and timber frames. A six-storey model building with eight units per floor (total 48 apartments of varying size) was designed by the architect working closely with the construction experts and the researcher as being the optimum building from a user, management, property and construction perspective. A key finding was that significant economies of scale could best be achieved by taking the approach of repeating construction of the same block type multiple times using conventional construction which would achieve significant discounts through the experience curve effect, volume purchasing discounts, delivery reliability and good quality control. The cost per typical two-bed unit ranged from €165,000 using a one off approach, to €145,000 per unit on a mass produced basis. The assumptions were zero land costs, no development levies, and working in optimal shovel-ready site conditions. Car parking requirements would have a significant impact on apartment unit cost. The first study had examined an underground parking option which concluded that this would add €25,000–€50,000 per unit. Due to the prohibitive cost, for the in-depth second study, it was assumed that all car parking would be at grade and at a ratio of one space per unit.

7.6 Conclusion

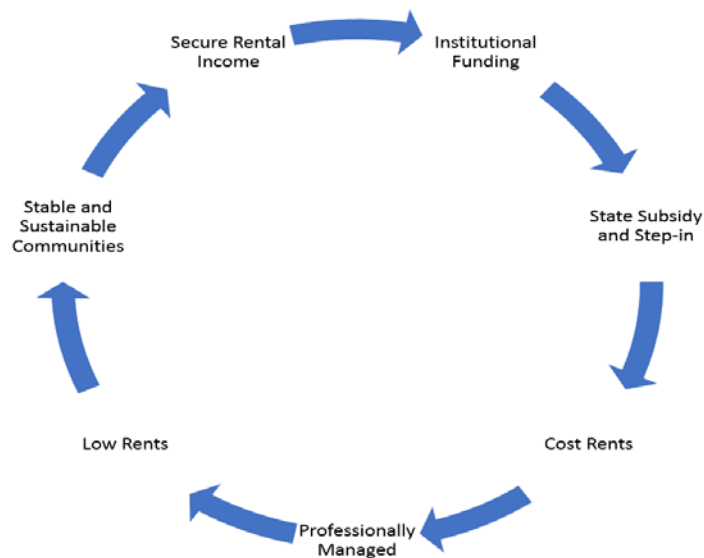
The model constructed is schematically represented in Figure 7.1.

Figure 7.1 The DADF Model



Each element of the model is designed to respond to the needs of the various actors to create a robust structure. The requirements of institutional investors are met principally by the confidence bestowed through the State-backed income flows and the professional management and sector expertise of the AHB operator. The tenants get the benefit of a high-quality manager and an investor landlord whose principal motive is income rather than capital growth. Thus, tenancies are inherently more stable and conducive to long duration. An institutional investor will also take an aggregated view of rents rather than the closer scrutiny an individual might take with the consequent potential for volatility. The principle is to create a virtuous circle (Figure 7.2) where each element strengthens the overall structure.

Figure 7.2 Virtuous circle funding, costs, rents



Theoretically, as mentioned at the outset of the chapter, it is recognised that the model is an idealised investment that utilises some existing institutional structures, while requiring adaptations to others, but also requires some novelty that will challenge the government and administrative institutional framework. The purpose of the thesis is also to draw investment institutions into new territory. As the model is tested and brought up against many of these institutions, it is expected that it will be reshaped and altered as it is brought towards reality. This exercise therefore explores the path dependencies and the nature of the mechanisms of institutional change. In concluding the thesis, the next chapter assesses the overall contribution of the DADF model, draws together the need for interaction between government, the private

sector and institutions within the theoretical context of path dependency and historical institutionalism.

CHAPTER 8: FROM THEORY TO REALITY

8.1 Introduction

In the previous chapter, a model was developed that responded to the identified needs of government, investment, and tenant stakeholders in terms of delivering a stable platform for the supply of social and affordable housing. The theoretical foundation is that housing systems are inherently path-dependent constructs and that change is both slow and disruptive. This chapter analyses the development of the model through various stages of government and stakeholder engagement in an attempt implement the fund concept. The chapter also seeks to demonstrate the policy impact this research on the future delivery of social/affordable housing drawing down institutional funding. Hence, building upon Chapter 7 this chapter also addresses the final objective of the thesis on the potential for new funding vehicles.

8.2 Institutions in a Housing Policy Context

As discussed in Chapter 2, path dependency relies heavily on the concept of critical junctures (Bengtsson, 2008; Bengtsson and Ruonovaara, 2010; Cappocia, 2015; Mahoney, 2000): periods of change among longer patterns of stability. It is submitted that Irish housing is coming to the latter end of a long critical juncture that has seen a shift from wholly State provision to reliance on the non-profit and private sectors for supply. To recap the process by which this process of privatisation took place under the influence of new public management techniques and more general neoliberalising trends (Kenna, 2011; Boyle and Humphreys, 2001; Keogan, 2003), the role of local government was recast from that of a supplier of housing into a more facilitative and regulatory role. Housing management by local authorities was the focus of two critical reports in the mid and late 1990s (Housing Management Group, 1996, 1998) which strongly influenced the view that their role as provider, allocator and operator of housing needed to be revised. Targets to increase housing output from the voluntary sector where standards were seen to be better were introduced. The private rented sector which had languished as a heavily residualised and unregulated tenure received belated recognition of its importance with the report of the Commission on the Private Rented Sector (2001). The lack of social housing availability in the face of rising demand eventually forced the State to turn to the private rented sector. In 2004, a new hybrid tenancy (Rental Accommodation Scheme

(RAS)) was introduced where private sector tenancies were wholly supported within the local authority housing system.

The onset of the economic downturn in 2008 had particularly dramatic accelerative effects on private sector involvement in social housing. First, there was a precipitous drop in capital spending across all housing programmes. Second, the State took the opportunity to avail of low rents as a result of the property crash to meet the shortfall through the introduction of long-term leasing of private properties for social housing. A year later in 2009, the law was changed to state that supported tenancies in the private sector were a form of social housing support. In 2013, the Housing Assistance Payment was introduced which was a wholly private tenancy with only a local government agreement to pay a certain level of rent. Thus, the change from social housing options residing solely on public sector properties was complete. In terms of supply, the Social Housing Strategy 2014 and *Rebuilding Ireland* (2016) – two significant policy statements – both relied on private sector provision to meet the overwhelming majority of social housing need (notwithstanding increased capital for traditional programmes). This gradual transformation of social housing is coming towards a conclusion where the missing part of the jigsaw is supply. While various references in policy documents and ministerial statements have alluded to institutional finance, no significant measure or response to elicit this has been adumbrated.

It is at this latter stage of the critical juncture that the present work is situated. In January 2015, three months after the publication of the Social Housing Strategy, the researcher made a formal submission to the Minister for Environment, Community and Local Government setting out the concept of an institutionally funded social and affordable housing delivery vehicle on the model set out in this research. In particular, the Fund proposed to government that it would purchase a fully complete 507-unit development and make it available for social and affordable housing on the Fund model. Details of the funding and proposed tenant mix were supplied, but no decision was forthcoming, and the development was sold into private ownership later in 2015.

There have repeated revisions and increases in capital allocations to social housing on established funding mechanisms. As the shortage deepened, political pressure was applied, and the availability of capital from the government increased. Thus government reverted to traditional methods of social housing provision as resources allowed. It is almost axiomatic that in this response, the system would be path dependent: faced with an urgent need, policy-

makers simply increase output using established mechanisms. There is no particularly valuable insight on institutions that can be gleaned from carrying on as before where that is an option. However, what is of interest is the institutional response to *new* approaches to housing provision: in the crisis, how did government respond? The overall public sector response to the supply of social housing from the private sector through the deep recession from 2008 was fourfold.

First, from 2009, the largest single source of social housing supply was units sourced from the private sector via leasing programmes. This was derived solely from the long-term policy direction towards revenue-funded supply programmes that was outlined above. Institutionally, then this was fully embedded in the formal state apparatus via law, regulations and administrative structures. Long-term leasing has a clear lineage back to pre-crisis policy, and may be seen as the most “path-dependent” of the solutions that emerged. Most of the discussion, legislation and administrative structures were in place and were then adapted to meet the exigencies of the time.

Second, the government committed to €300 million to develop three “bundles” of Public Private Partnership (PPP) projects for social housing on a design, build, finance and maintain (DBFM) model that the State had used for building schools. The target was to deliver approximately 1,500 units through this method. The PPP system, though elaborate, slow and expensive (typically costing 8–12%) was a tried and tested model by the Irish public sector. Having been tested by the relevant statistical authorities, its balance sheet treatment for government purposes was favourable, and all of the mechanisms and structures were in place. Accordingly, this must be seen as a conservative and heavily path-dependent response to the crisis. Despite its relatively high cost, and slow rate of delivery, the model was pursued and advocated by government. Thus, the PPPs were announced on 14 October 2014. On 13 October 2015, the location of the first bundle of sites was announced, and the contract notice was published on 12 May 2017. It is difficult to state when the housing might be delivered.

Third, under pressure to contribute a “social dividend” from the political system, NAMA established a vehicle (National Asset Residential Property Services (NARPS)) to deliver social housing via long-term leasing to Approved Housing Bodies. This vehicle strongly resembles the Fund model in its use of existing leasing systems and the utilisation of the AHB sector as managers. NARPS had a portfolio of 1,168 properties at end June 2017 (NAMA, 2017) all with State-backed leases. In contrast with leasing, NARPS came into existence through commercial

decision by NAMA and informal policy networks throughout the public sector. Lowe (2004) cites Lindblom's 1959 essay of policy as "muddling through" – that policy comes about as a process of gradual change and accretion rather than any pre-packaged arrangements, and this possibility must be allowed here. Certainly, the NARPS entity was not pre-ordained by any statute or envisaged (except in the loosest terms) by any public policy. However, it was a product of institutional pressures, and the eventual form of the entity in its similarity to the Fund model is of particular interest. Again, the NARPS structure mirrored existing arrangements for long-term leasing – in particular the Payment and Availability Agreement (PAA). However, NARPS marks a significant shift in institutional arrangements. It is currently an entity under the auspices of NAMA, but that agency has a limited lifespan and a mandate to divest itself of assets to recover value for the State. NARPS therefore stands out as a prime investment opportunity when it is disposed of. It has precisely the characteristics identified in this thesis as a product for institutional investment – real estate backed by solid government covenants, income producing, low risk, and indexed.

The fourth response was the Social Housing Proposals Clearing House Group. In March 2015, the Government established the Clearing House process to place on a formal footing all engagements with private sector actors with proposals to invest in social and affordable housing (DECLG, 2015). The Clearing House Group was composed of senior officials from the Departments of Environment, Finance, Public and Expenditure and Reform, and also included the Housing Agency, and representatives of local government. Submissions were invited from interested parties, and a formal meeting and presentation between the Fund and the Clearing House Group took place on 17 April 2015. One week later, the Group sent a detailed set of queries was sent to the Fund, and these were formally answered. Some more minor queries were made in September 2016. On 8 December 2015, the Clearing House Group formally responded to all parties who had made submissions to say its work was complete. The Group noted that no new model presented could produce social housing on an off balance-sheet basis, but elements of some proposals could offer a way forward and in particular recommended that some changes could be made to existing payment and availability agreement structures to further facilitate new sources of finance. The Clearing House Group recommendations were accepted by the Minister, and the National Development Finance Agency were appointed as financial advisors to the Department in developing and implementing the recommendations. The recommended timescale was to bring a new affordable rental scheme to the market in early 2016.

In contrast with both the leasing programme and NARPS, the Clearing House process was wholly ad hoc with no basis in policy documents or in legislation. It was a response to an upswing in interest from the private sector in social housing provision in the aftermath of the publication of the Social Housing Strategy, and designed to provide “a structured, formal process of engagement with proposers of social housing/investment delivery proposals ... rather than individual Departments continuing to meet with these persons on an ad hoc basis” (DECLG, 2015, p.1). While it is too early to fully evaluate the worth of the Clearing House process, it undoubtedly had a chilling effect on progress of social housing delivery by the private sector from 2015 to time of writing (mid 2017). By directing all engagement with the public sector regarding housing to the Clearing House, the potential for iterative and more specific and targeted multi-agency approaches was closed off. For example, no dialogue was possible with officials outside the process. Prior to the establishment of the Clearing House, meetings with the Directors of Services for Housing in the four Dublin local authorities had taken place, and channels of communication were open. However, it was clear that councils would need central government support or approval for innovations or partnerships involving the private sector, and the Clearing House process essentially precluded these. In such a dense institutional framework of government departments, state agencies, and local authorities and with such a loose mandate in terms of outcome, together with the lack of clear leadership and deep path dependencies both within the member institutions and between them, clear conclusions would always be difficult to achieve.

As part of the research this thesis, the author published a paper in 2015 identifying a core problem in Irish housing policy in that it was diffused across too many departments and agencies (Nowlan, 2015). The lack of an overall strategy and a co-ordinating authority for housing leads to lack of coherence in policy-making. Housing policy lies with the Department of Housing, Planning, Community and Local Government. However, many of the policy instruments, particularly those relating to finance and taxation reside in the Finance Departments of the Irish government. There are also a multiplicity of autonomous and quasi-autonomous agencies advising policy-makers. While DHPCLG has a policy objective of achieving private sector involvement in social housing, the Departments of Finance and Public Expenditure and Reform are charged with guarding the national purse strings. Culturally, they are averse to additional spending or to exposing the Exchequer to additional risk. The Programme of Assistance between Ireland and the “Troika” (the European Commission, European Central Bank, and International Monetary Fund) had placed severe constraints on

Ireland's ability to take on additional financial commitments. The environment in which the Clearing House Process worked also included the Housing Agency who advise the government on housing policy and the National Economic and Social Council (NESC) who had presented a very strong report in favour of a cost-rental model for Irish housing provision in 2014. NAMA also participated and provided the Chair, as did representatives of the local government sector.

In assessing the Clearing House recommendations, it is clear that State balance sheet considerations were paramount in the group's deliberations. This points to dominance by the Finance Departments in the consideration of options. In North's terms the bargaining strength of actors was the key deciding factor. The tenor of the Clearing House recommendations suggests that the relative merits of each proposal appear to have been largely measured on their balance sheet impact – and not any other housing policy consideration. Thus the key influencer for housing policy was in fact broader matters of economic policy. While this is intuitively true, it demonstrates the character of institutions in a housing policy context.

8.3 New Bancroft Affordable Rental Case Study

As noted, among the recommendations of the Clearing House Group was that there should be an affordable rental scheme. The lack of an intermediate tenure between the market and social housing was identified by the researcher as one of the biggest lacunae in Irish housing. Achieving tenure mix in developments was also identified as vital to securing investment at scale. Government had committed to an affordable rental pilot scheme in Budget 2015, providing funding of €10 million per annum. In March 2016, the National Development Finance Agency (NDFA) who had been appointed as advisers to the government with regard to the Clearing House recommendations contacted the Fund promoters for a preliminary meeting which took place on 15 March. Subsequently, a draft proposal was received from the NDFA for comment, and this was returned with detailed notes and observations on 6 April 2016.

This period also saw a general election (26 February) and a protracted period of 10 weeks before a new government was put in place in early May. The strong indication from the new Government was that it would continue with the programme of the last Government in delivering social housing, and the new Programme for Government repeats the commitment to introducing an affordable rental model that was made in 2015 (Government of Ireland, 2016). In February 2016, an opportunity was identified to purchase 130 apartments for the Fund at

New Bancroft in Tallaght, southwest Dublin. The units were well located and nearing completion having been recommenced after a long pause due to the economic downturn. While details of the NDFA draft pilot scheme are confidential, the kernel of it was a 30% subsidy would be payable to landlords in respect of “affordable” tenancies. It was decided to test the concept and explore whether the New Bancroft property could be acquired and deployed as an affordable housing scheme.

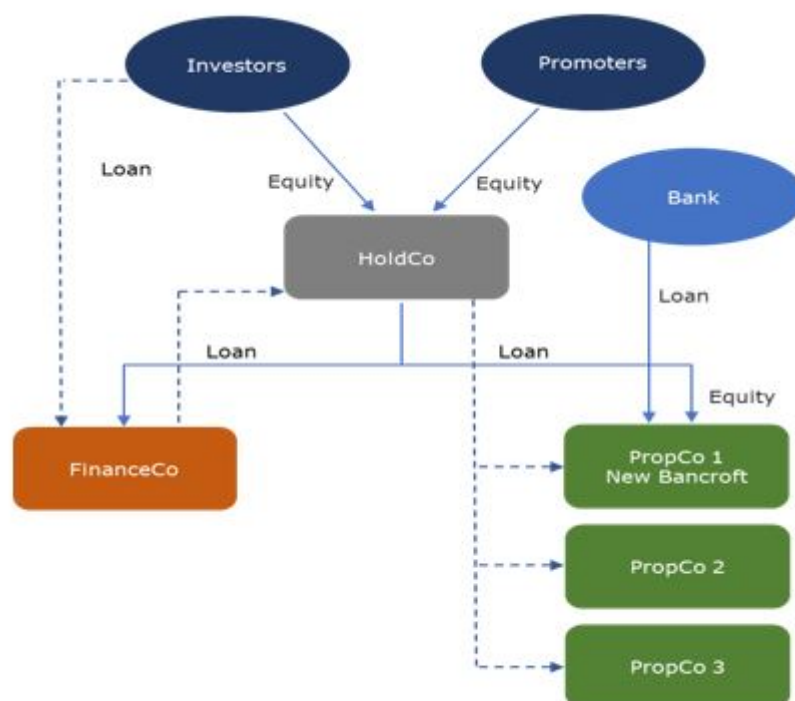
The Fund would acquire the property and grant a long lease to an AHB on a cost-based rent. The AHB would collect the tenant rent (c.70% of market) and the government subsidy (30%). The rent they would pay the Fund would be on FRI terms, net of operating costs. With an asking price of €31 million, the cost-based rent at a 5% yield to the Fund represented a figure of approximately 77.5% of the market rent. Sourcing an AHB to take a lease was instructive as to the nature of the sector and the future client base of a future fund. First, there were only six AHBs of sufficient scale to take on a commitment of the size of New Bancroft. Second, some of these were averse to taking a lease as they felt that acquisition of stock was more lucrative and a long-term better business model. However, one was willing to take the lease on the terms offered, and to operate the development on the basis of a 100% affordable rental project.

The question of initial investors who would finance the project was problematic. The returns were relatively low, especially given the novelty of the idea and location in a non-prime part of the city. A number of high-net-worth individuals were sourced who would act as angel or impact investors. These accepted the lower yield in recognition of the value of the potential of the overall Fund project. While New Bancroft stood alone as an investment, it would not have been possible to secure funding in the absence of the wider Fund concept. Thus an exit was offered to investors that if the Fund did not grow into the larger entity envisaged, the project would be sold and they would be paid out. The Ireland Strategic Investment Fund crucially also invested almost half of the equity and to improve returns, leverage was taken on at approximately 50%.

Investors also agreed to absorb a high set-up cost in recognition that New Bancroft would carry higher advisory fees than a typical transaction its size as structures were put in place that could carry the larger Fund entity. The corporate structure was also elaborate in recognition of tax efficiency and involved the incorporation of four companies. Figure 8.1 shows the structure as designed by KPMG. The fourth company incorporated was an asset manager who would

manage the Fund for a fee. That company is outside the structure shown below, and is the day-to-day operator of the Fund.

Figure 8.1 DADF Structure (per KPMG, 2016)



The principle of the New Bancroft project was that the model would essentially prove the DADF idea as originally conceived with the replacement of the land subsidy and step-in agreement with the cash subsidy. The purpose of the venture was to put in place a proof-of-concept model that could be tested and shown to work for future investors. The project would also seed the Fund and provide some cashflow to operationalise the Fund further.

Thus, with terms agreed with the vendor, funds committed and indicative support from the Government up to now, the entire basis for the project was withdrawn. With no affordable housing subsidy, there was no margin for the AHB, and it appeared the project would have to be abandoned. As the subsidy scheme had no public existence, it was a creation of the Housing Department and the NDFA in confidential draft as an output of the Clearing House Group, there was no official document or policy to rescind. It appears from informal channels of communication that the plan fell foul of the Department of Public Expenditure and Reform despite being promoted by the Housing Ministry. As the Departments of Finance and Public

Expenditure and Reform control the purse strings, they effectively are more “senior” to “line” Departments. This is not startlingly new, though it brings it into stark relief. What is perhaps more interesting is that funding for this pilot had been earmarked over 12 months earlier from non-revenue sources (the sale of a State utility) and was limited in both time and quantum. Accordingly, it should not have impacted on State current account. The scheme was therefore dropped for policy and political reasons outside the formal housing policy sphere.

Appraisals of New Bancroft indicated that the project was an attractive standalone investment. Accordingly, it had been demonstrated to investors that in the event of the wider Fund concept not progressing, the New Bancroft project could be traded at a reasonable market return as an exit strategy. However, it was decided to recast the New Bancroft pilot as a mixed-tenure scheme of market renters, social housing leased to the local authority, and crucially a cohort of HAP tenants who would act as a proxy for and affordable tenure. On close inspection of the HAP regulations, tenants could pay a top-up direct to the landlord. Eligibility for HAP extended to all households who qualified for social housing support, which extends well into the middle-income range. Households earning *net* income of €35,000 could claim HAP. While they would struggle to pay rents in the market at this level, and while HAP would not cover all of their rents, they could afford to pay a top-up that would bring the total rent paid to the market level, and thus test out the HAP payment as a quasi-affordable housing scheme.

The maximum monthly HAP payments for different household types in the South Dublin County Council area is shown in Table 8.1. By way of example, a single parent with a child earning €30,000 pa, would qualify for a HAP payment of €1,250 per month. As two-bedroomed unit in New Bancroft would cost €1,600 pm, the household would pay a top-up to the Fund of €350 per month and also 10% of their net income to the local authority in differential rent. Thus their overall housing cost would be around €550 or around 25–27.5% of their income. Overall, the net subsidy would be around €1,050 per month.

Table 8.1 Example of monthly HAP payment

Household type: Monthly HAP Payment Maxima							
Local authority administrative area	One adult in shared accommodation	A couple in shared accommodation	One adult	A couple	One adult, or a couple, with 1 child	One adult, or a couple, with 2 children	One adult, or a couple, with 3 children
South Dublin	€430	€500	€660	€900	€1,250	€1,275	€1,300

Under existing State schemes, units can be leased to the local authority at 92% of market rent under an availability agreement structure. This 8% discount reflects the lack of void periods and the State covenant. In New Bancroft, it was decided to operate the scheme on the basis of 70% market tenants, 20% HAP tenants and the balance as socially leased units. The scheme would be directly managed by an agent of the Fund rather than by sub-lease to AHB. The income stream would therefore be approximately made up of a combination of tenant contributions and State payments. From an investment point of view, the long leases to a government surrogate (the local authority) are a better quality covenant than the HAP payments which travel with the household. Because the HAP payments and the leases to local authorities are all market based, even with the small discount from market in respect of the leased units, the effect on returns between the two models was slight.

This was a critical juncture of a different type for the Fund project. At this point, the only indication from central Government that any below-market rental schemes other than social housing would be introduced was via State land projects. Such projects could not be delivered in less than 18 months and the likely period – with public procurement considerations – would be much longer. A decision had to be made to proceed with or abandon New Bancroft. Using HAP tenancies as a form of affordable rental, thus giving part of the income a quasi-government underwriting, it was decided to purchase New Bancroft on the terms already agreed with the developer. However, three important changes occurred to influence that decision. First, rental values had increased in the area thus giving a higher projected ungeared investment yield of 5.6%, up from just over 5%, secondly one of the Angel Investors was unable to complete, and was replaced by ISIF who agreed to increase their shareholding from just under 30% to just under 50% and thirdly the level of debt was increased from €16m to €17m. ISIF also required that 30% of tenancies were social tenancies. This did not pose an

issue having regard to the purpose and objectives of the fund. Approximately 25% of the overall rent roll is from Government payments.

8.4 Conclusion

At time of writing (mid 2017), New Bancroft is being tenanted on the 70/20/10 tenure mix as envisaged. A detailed investment memo is being prepared to raise additional funds to ISIF's equity contribution, and a pipeline of new projects is being identified (see Appendix 1). It is apparent from the ISIF investment and the early interest from other institutions that investment can be elicited for low-income housing including social and affordable tenancies. Therefore, the core goal of bringing institutional investment into the sector has been achieved. Those aspects of the model that have not yet been brought into being – use of State land to reduce costs and cost-based rents; FRI leasing to AHBs; and use of step-ins and guarantees remain part of the debate.

The next chapter of the thesis seeks to draw wider conclusions from the study with a particular focus on the impacts stemming from this research.

CHAPTER 9: CONCLUSIONS

Individual chapters of this thesis have followed particular themes reinforcing the outcome of the objectives established in Chapter 1. This chapter rather than specifically returning to each of these takes a more holistic perspective by drawing conclusions on the policy impact of the research and highlighting where new insights have been gleaned into aspects of Irish housing policy, policy-making and governance. As discussed in Chapter 2, the present work has very much positioned itself in a theory of the middle range. As such, the research has sought to examine observed phenomena and data and to extrapolate a theory of how housing systems evolve and develop. The goal has been to understand the dynamics of non-market housing and the institutional framework in which it operates. That has brought the present research into close contact with the networks of policy-makers, housing operators, the private construction industry, financiers and others. While the model advanced in this thesis has not yet been fully implemented, it appears nonetheless that the present work has permeated the institutional discourse and will continue to influence housing policy through to the end of the present critical juncture.

Measuring policy impact is problematic from number of standpoints. First, there is a difficulty in identifying precisely where a policy originates. Policy in Ireland can be somewhat nebulous. While formal statements are common, they do not carry the scholarly rigour of attribution and acknowledgement. This means that tracing the ancestry of an individual policy item is not straightforward. Policy also takes time to implement. While the effect of some initiatives can be felt relatively quickly, others make take years to be felt. Lastly, policy is likely to be implemented patchily, that is to say greater enthusiasm for some aspects of policy is likely to be mirrored by slower progress on other elements.

Like success, policy can have many fathers. Often this is the result of dense networks of interaction on a subject, which has certainly been the case with housing over the past few years, with innumerable conferences on the subject, and an unprecedented level of public and political interest. Inevitably, focus is brought to bear on particular policy areas as circumstances dictate and in examining the impact of this research on policy, it is necessary to look at the position in 2013 when the research began and the present. This has been a time of unprecedented tumult in social housing in particular. The rapid evaporation of the supply overhang in Dublin and the lack of new construction activity led rapidly to rising rents, falling affordability, and increasing levels of homelessness. Thus, neither the owner-occupier sector

nor the private rented sector offered safety valves to each other. The NESC report in 2014, Construction 2020, the Social Housing Strategy and Rebuilding Ireland meant that this research was taking place at time of intense activity in Irish housing policy.

To measure the impact of this research, it is also important to catalogue the activities that were undertaken over the timespan of the research. These reflect a series of formal and informal engagements, both written and oral:

1. A series of papers prepared by the author individually or in collaboration with relevant experts.
2. A series of opinion pieces in national print media on housing topics;
3. Delivery of papers at conferences;
4. Attendance and contribution at conferences;
5. Formal interaction with government via the Clearing House process;
6. Ad hoc interaction with government and local authorities on individual issues and projects for example the Dublin City Council Housing Land Initiative;
7. Ongoing interaction with NESC, the Housing Agency and housing researchers.
8. Survey of pension fund managers; interviews with leading institutional investors.
9. Engagement with ISIF, NAMA, the Pensions Authority and other stakeholders on the Fund model.

Areas where this research has made a specific contribution to knowledge and which previously did not exist or were extremely marginal to the Irish housing policy discourse are detailed as follows.

Affordable Housing

As discussed in earlier chapters, Ireland's housing policy for many decades was to support as many households as possible into home ownership, and to use the local authorities to provide housing at very low rents for those who were unable to purchase their own home. This became the social housing system, which, for the reasons outlined in Chapters 3 and 4, has become heavily residualised. Allocation on the basis of need has led to social housing being offered to the most disadvantaged and marginalised households. Decades of mass social housing provision led to dense concentrations of such housing, which in turn has led to entrenched patterns of poverty and deprivation. As owner-occupation was the State's preferred tenure,

local authority stock was sold to tenants at deep discounts on favourable loan terms, leading to the more desirable developments becoming almost entirely privatised.

Since the mid-1990s the general drift of policy was to reduce the level of subsidy available to owner-occupiers through, for example the abolition of the first-time buyer's grant, and to progressively lessen the mortgage interest taxation relief. This culminated in the Housing Policy Statement of 2011 (DECLG, 2011) which committed the State to a tenure-neutral policy stance that explicitly acknowledged the risks to households and the economy associated with over-incentivised home ownership. Affordable housing in an Irish context referred to a series of schemes which provided access to home ownership on preferable terms to eligible households. Thus, planning gain was used to capture reduced land values to provide a proportion of new housing to purchasers at reduced prices.

The differential rent system that links rents to incomes also has built-in maxima and other brakes that generally prevent social rents from approaching market levels. The rare exceptions occurred in areas where private rents are exceedingly low. As also discussed, the thresholds for access to social housing are relatively high, ranging from 85%–100% of median income in Dublin. Despite this, however, needs-based access schemes mean that most households offered social housing are extremely low-income cases or entirely welfare-dependant.

This situation creates an affordability trap for middle-income households in areas of relatively high housing costs like Dublin and Cork. Such households are unable to access social housing and struggle to pay for appropriate housing in the market. In particular, as shown in Chapter 4, the Central Bank macro-prudential lending rules appear to be delaying or precluding a large cohort who would in previous times have bought a home, and confining them to renting. However, also in Chapter 4, the nature of the private rented sector in Ireland was shown not to be conducive to the kind of long-term stable rental environment that is required for the tenure to contribute positively to the overall housing environment. Thus, as highlighted the characteristics of institutions as residential landlords bring important benefits in creating a more stable rental option.

While the idea of an intermediate tenure of affordable renting is by no means new, a healthy cross-fertilisation of ideas took place between this research and the NESC work into housing that led to an explicit identification of intermediate renting as an important part of solving Irish housing needs (NESC, 2014). Extensive dialogue and exchanges of view took place with

preparatory papers cited in the NESC report and staff working papers (NESC, 2014). Official recognition of the need for affordable renting came with the announcement of a €200 million affordable housing pilot scheme to be implemented by means of a €10 million annual commitment over 20 years, and further copper-fastened in the Social Housing Strategy (DECLG, 2014).

The research undertaken for this thesis has further strengthened the public policy case for affordable renting and has identified the requirements of pension funds investing in social housing. Furthermore, the research highlights that large tracts of social-only housing are not desirable and that its heavily residualised state is likely to exacerbate and prolong patterns of poverty and disadvantage. This is important, as the deepening supply problem in social housing has led to calls for large-scale responses.

This research has advanced the rationale for affordable renting on several fronts. In Chapter 5, it was demonstrated that internationally, some systems of housing provision for low-income households permit a tapered system of housing support that permits middle-income households to avail of housing, albeit at a lower level of subsidy than attaches to the very poorest households. The absence of such a system in Ireland, together with the long-term unwillingness of the State to provide such households with social housing is the cause of the endemically long waiting lists, and the perennial problem of a cohort of households who have struggled either to access homeownership or find secure private rental accommodation.

The real innovation of this research has been to demonstrate that this intermediate tenure not only meets a need, but is also very amenable to produce institutional investment. In so doing, it also overcomes one the central problems in mass housing delivery – that of achieving delivery at scale and attaining a suitable tenure mix that can produce the sustainable communities are required for both public policy and sound investment reasons. Furthermore, the concept of an affordable rental tenure has now become a commonplace in Irish housing policy. In this context, a contribution of this research has been to explicitly link affordable rental with the realities of securing institutional funding and mixed tenure.

Contribution to policy

This research has also highlighted important lacunae in Irish housing policy. The paper *Housing Supply in Ireland: Perennial Problems and Sustainable Solutions* (Nowlan, 2015), a by-product of research undertaken for this thesis, has proven highly influential since its

publication. The paper was explicitly acknowledged by Property Industry Ireland, the main industry representative group, as forming the inspiration for their Housing Manifesto (PII, 2015). As an outcome of the proposed Fund structure, DHPCLG recognised the need for larger-scale investment in social housing with the Department revising leasing arrangements to facilitate larger institutional private investors in the social housing market. (DHPCLG, 2016b). Furthermore, recasting of the Department's focus in 2016 to make housing the top priority was a central thrust of the researchers' 2015 paper and similarities in the Government response point to the significance of Nowlan's paper in being a factor in the institutional re-arrangement and policy re-alignment that took place during 2016.

The cost based rental model

Whilst DADF's primary goal was to identify a means of channelling institutional funding into social and affordable rental housing, it quickly evolved to include a cost-based rental model. Cost rents have of course been a well-understood concept in housing policy debate (Kemeny, 1995). The NESC (2014) report strongly advocated a cost-rental sector as a response to the housing shortage. Of course, maturation effects take a very long time to be felt, and their full impact on housing systems would take a generation to develop. NESC also called for an affordable rental sector based on a formulation they termed "supply side supports with conditionality". The DADF cost-based rents are a variant of the pure Kemeny cost-rental model. With the rents based on the cost of providing the dwelling, there is no maturation – but the State subsidy in the form of land and/or guarantees enables a form of permanently below-market rents to be created. Cost-rental remains a key (but non-specific) goal of Government policy and land subsidy has also become the only extant source of affordable rents available within the existing policy framework. Research in this thesis has shown the profound impact that costs can have on rents and highlights that removing elements of costs are key to affordability. Indeed, in the current Programme for Government there is a clear commitment to a cost rental model.

Investor Yield

This research is the only analysis in Ireland of the level of yield that would be demanded by investors to fund social/affordable housing. The analysis in this thesis has shown that the net yield currently required for investors in the higher end of the market spectrum in the order of 4.5% to 5.0% however it is in the lower end of the market that the yield spectrum moves out to

the 7% plus range. This can be seen by the more recent deals by IRES REIT in working class Dublin suburbs. The New Bancroft project is showing an initial yield of over 5.5%. This has many more market characteristics and lower levels of government support than the original model. However, it was possible to fund New Bancroft at the same returns with the 30% government subsidy scheme that was originally mooted.

The source of funds for the initial phase of DADF is targeted not at the real estate asset class but rather at creating a bond surrogate that would show yields a little below property but with indexation and security that would compensate for the lower return. The feedback from the survey of pension funds showed support to invest in a bond-type instrument that would yield around 4% indexed to inflation or rents which had a partial government underwrite. With all of these factors in place, the research shows that pension funds would invest for terms of up to 25 years. Significantly, pension funds indicated that they would not invest in purely social housing but would consider a project for key workers that had limited social housing and formed sustainable communities where property values could be maintained. Hence an important contribution stemming from this research is that pension funds will support the Fund if all their preconditions are met at a net yield of 4% to 4.5%. To this figure must be added the operating cost of the Fund, the industry norm for such cost is 1% to 1.5% of annual funds under management. Accordingly, the necessary investor yield on funds advanced by the Fund will have to be in the order of 5.25% to 5.5% which is more or less where New Bancroft secured its funding, but as noted above, with a much greater market exposure.

The Role of Land

One of the key principles of this research is that deploying State land to produce permanently low rents is one of the simplest and most direct ways to produce an affordable rental tenure. This idea has been taken up by the State, but in ambiguous terms though one of the key initiatives in Rebuilding Ireland was the use of State land for mixed tenure housing. Despite this vagueness with regard to the end mix of tenures within the development, it appears the public sector wishes to see proposals coming forward for affordable rental. Indeed, in early 2017, South Dublin County Council and Dublin City Council put forward four sites in their ownership for mixed tenure developments. The Fund has joined one consortium that will propose permanently affordable rents, based on removing the land cost from that class of accommodation.

Regulation and Investment

Perhaps one of the most important insights gleaned from this research is that increased regulation of the rental sector can make it more conducive to institutional investors. While commercial property has a well-established legal underpinning, residential property remains underdeveloped and with a weak regulatory structure. Thus strengthening the institution of rental housing (in the institutionalist sense) would improve the potential for new funding sources. This is somewhat counterintuitive where traditionally regulation would be seen as a barrier to investment. There is no doubt that with relatively small measures and changes to existing support structures that substantial funding can be channelled into housing, and it would be a strong recommendation that government urgently undertake the work to bring this to bear.

Housing Research Capability

A final issue that this research has exposed is the absence of any well-resourced holistic housing research capability within the State. With the exception of NESF, whose housing focus is sporadic, there is no research that is considering the housing market in a holistic manner. In particular, work on social housing tends to be the preserve of universities and the NGO sector, with a strong bias towards social science. As such these do not consider the wider issues of housing, finance and the interface between tenures. In contrast, the private rental and owner-occupier markets are the focus of extensive research by government agencies (RTB, ESRI, Central Bank) and private sector actors (industry bodies, financial institutions), but these do not focus on affordability or social housing needs, focusing instead on an economics-centred approach.

Some examples of the adverse effects of this is the lacuna in data and investment patterns in the rental market, where estate agents are reporting widely divergent trends in the buy-to-let market. A contentious debate took place on apartment floor space standards without any significant academic research input or international benchmarking before the regulations were changed. Arguments over the cost of housing provision and viability are conducted without any agency to provide an authoritative, evidence-based answer. In a housing supply shortage of the type Ireland is experiencing, where together with the effects on individual families, the deficit in housing threatens economic recovery and growth, it should be an urgent matter of public policy to rectify this knowledge gap.

Final reflections

Some 30 months after the publication of the Social Housing Strategy, it would appear that progress on actions relating to private sector involvement in social housing and the affordable housing pilot that was announced in October 2015 has been negligible apart from the proposed conventional PPPs (DECLG, 2016). Other than this, most of the focus of government activity appears to be on the deployment of increasing amounts of capital for local authority and AHB development and acquisition projects. Residential development activity in the general market is making a very slow recovery, and property values in many locations remain close to, or below replacement cost, meaning that there will be a very slow trickle-down effect to lower income households. Meanwhile, supply pressures in the rental market have become acute, leading to systematic accommodation shortages in Dublin. The inevitable market recovery can only take place with the aid of higher rents which will increase affordability problems for low and moderate income-earners, and the State will have to pay a large portion of these rents if its ambition is to house 75,000 households in the private sector via HAP. Moreover, given the long time lag between supply response and delivery, the likelihood is that these effects will be magnified by any delay.

The announcement in June 2017 of a review of Rebuilding Ireland barely a year after it was first published offers the possibility of a step change in methods of housing delivery that could place Irish housing on a more sustainable and stable footing. This, however, will be the fourth such attempt in three years to develop a strategy. This research has shown that the possibility exists to find abundant and relatively cheap capital for social and affordable housing from the private sector. It has also shown that institutional change is required, and illustrated the character of the Irish housing system and its path dependencies. The solutions offered herein are by no means the complete answer to the severe deficit in housing supply that the country faces, but they do point the way towards a better and more efficient housing environment.

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APPENDIX 1.

URBEO RESIDENTIAL INVESTMENT MEMORANDUM



Investor Presentation – March 2018
Strictly Private & Confidential - Do Not Redistribute

Goodbody

Contents



1 Introduction

2 Irish economic backdrop

3 Housing market backdrop

4 Urbeo Residential

5 Structural considerations

6 Conclusion



1. Introduction

Executive summary



- 1 Ireland has a severe supply / demand imbalance in the residential sector which has resulted in an acute shortage of affordable housing, particularly in Dublin
- 2 Urbeo seeks to be the first platform of scale in Ireland to deliver a long-term, sustainable source of accommodation in the private rental market with a significant component of working households and government backed tenancies where demand is greatest
- 3 Proposed tenant mix will support the creation of sustainable communities characterised by long-term tenancies
- 4 Highly experienced management team with wide sector experience and a proven track record in the housing sector
- 5 Target stabilised dividend yield of approximately 4.5% to 5% and levered IRR of 8% to 10%
- 6 Expected rental growth in excess of CPI over the medium-term
- 7 The Promoters are carrying out financial due diligence on a number of potential opportunities and are in early-stage negotiations with some of Ireland's largest homebuilders
- 8 The Ireland Strategic Investment Fund is committed to being a cornerstone investor in Urbeo

The Urbeo opportunity



Background	<ul style="list-style-type: none"> Urbeo is a new property venture that is being established by Bill Nowlan and Frank Kenny (the "Promoters") to deliver long-term, sustainable accommodation in the private rental sector The Promoters and Executive Team have worked together for many years – Irish Life, WK Nowlan Real Estate, Hibernia REIT and Eir The establishment of Urbeo follows the success of New Bancroft, an unfinished, 131-unit multi-family apartment complex located in Tallaght, West Dublin that was acquired off market in July 2017 by DAD Property Fund Limited ("DADF") (which was established by the Promoters)
Supply / demand imbalance	<ul style="list-style-type: none"> The supply / demand imbalance of new homes is placing severe upward pricing pressure on the housing market, particularly at the low to middle tier of the market The National Planning Framework (September 2017) identifies a projected total requirement to accommodate 550,000 additional households by 2040 The level of housing completions in Ireland in 2017 was estimated at c. 19,300 units. This compares to estimated sustainable demand of 30,000 units per annum ⁽¹⁾ Affordability remains a significant challenge particularly at the working household level
Social housing demand far outstrips supply	<ul style="list-style-type: none"> The increase in house prices and rent levels has driven social housing lists to near <u>all time</u> highs Government strategy seeks to provide 100,000 social housing units by 2021 Approximately 36,000 households have been accommodated via the Housing Assistance Payment, however, c. 86,000 households remain on the national social housing waiting list and c. 35,000 in Dublin alone The Government is seeking to source <u>in excess of</u> 60,000 units from the private sector over the next four years
Strategy	<ul style="list-style-type: none"> Urbeo intends to acquire residential property for the provision of market, social and affordable rental accommodation with a primary focus on the Greater Dublin Area (the "GDA") ⁽²⁾ At the fund level, it is <u>Urbeo's</u> intent to target an overall tenant mix of approximately 70% market renters and approximately 30% supported tenancies The proposed tenant mix will support the creation of sustainable communities while simultaneously protecting and enhancing the future market value of the underlying properties
Pipeline	<ul style="list-style-type: none"> The management team are currently carrying out financial due diligence on 18 potential projects with a combined acquisition and development cost <u>in excess of</u> €700 million

Sources: Department of Housing, Planning and Local Government, Summary of Social Housing Assessments 2016

Notes:

1. The accuracy of the data relating to the total number of housing completions has been contested by a number of market commentators who believe the total number of completions is significantly lower – e.g. 9,513 based on Building Energy Rating Certificates in 2017
2. Comprises Dublin, Meath, Kildare and Wicklow

7

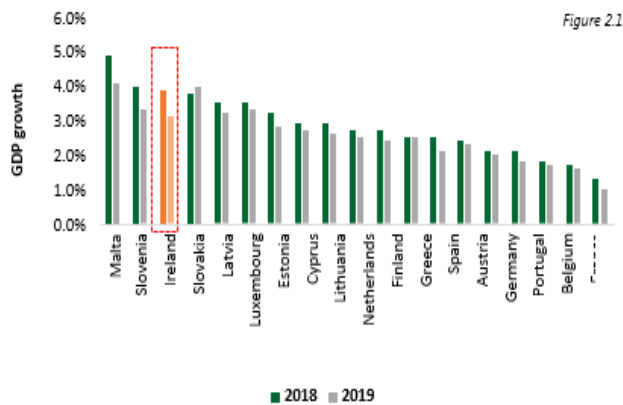


2. Irish economic backdrop

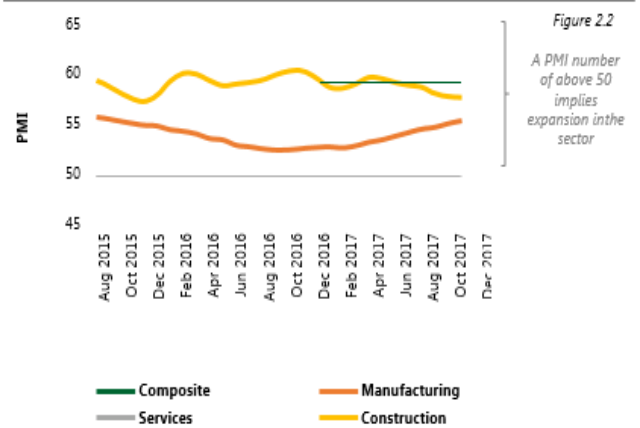
Positive economic backdrop

Irish economy is significantly outperforming the Eurozone

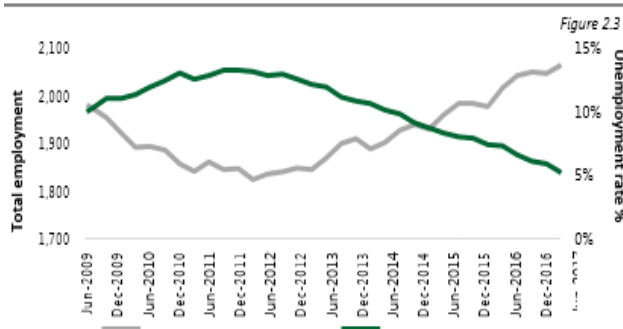
average ...



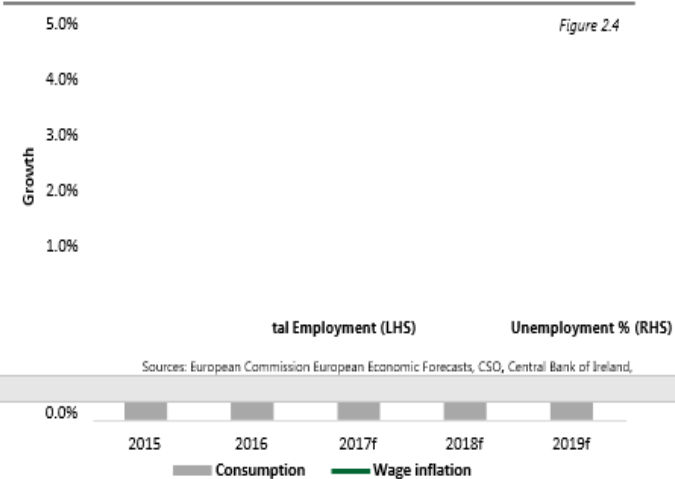
... with strength across all areas of the economy⁽¹⁾



Total employment levels rising and growth accelerating ...



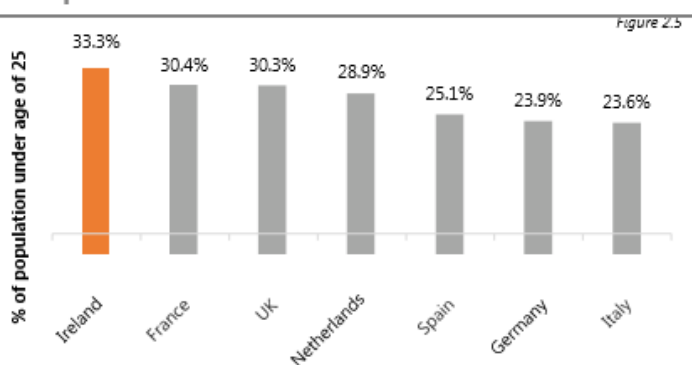
... alongside wage growth and increasing consumption



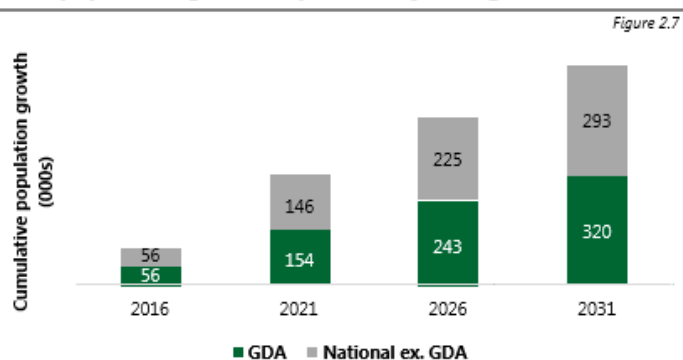
Goodbody estimates Notes:
1. Rolling 12-month average

Demographic trends will add to housing demand

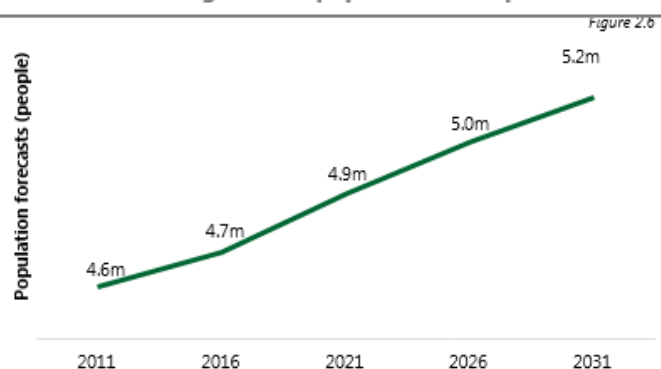
Ireland has one of the youngest populations in Western Europe ...



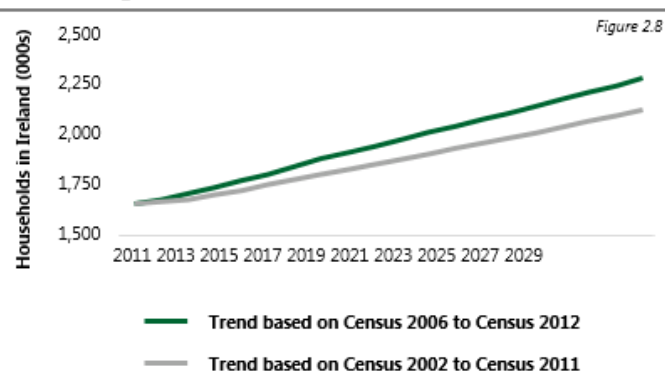
The population growth is particularly strong in the GDA⁽¹⁾ ...



... with a material growth in population anticipated⁽¹⁾



... all driving an increased number of households



Sources: Eurostat, CSO, The Economic and Social Research Institute

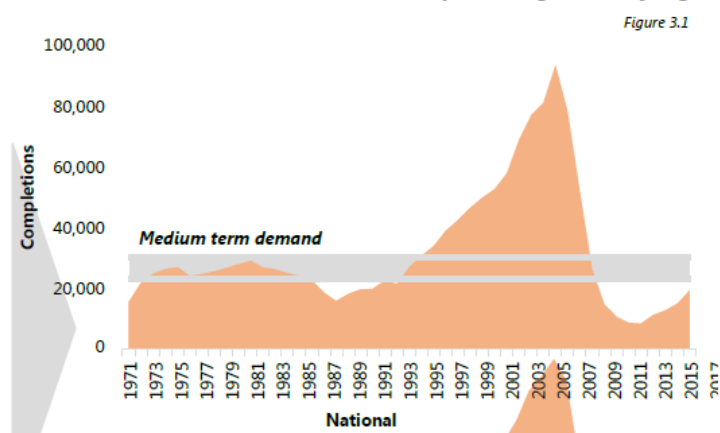
Notes:

1. Based on M2F2 forecasts



3. Housing market backdrop

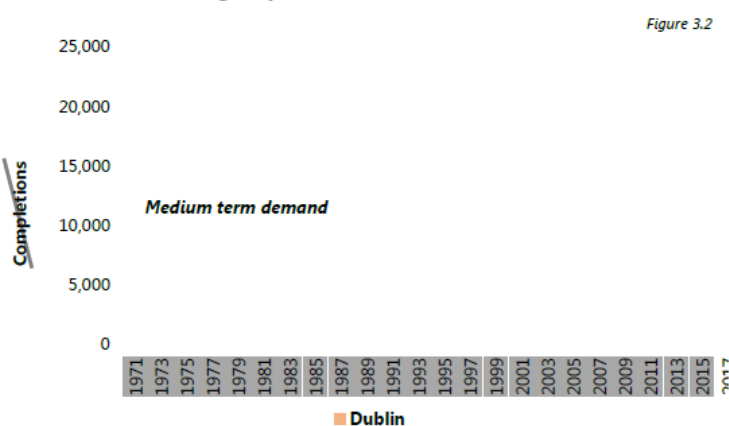
The current level of residential development significantly lags the medium-term housing requirement ⁽¹⁾



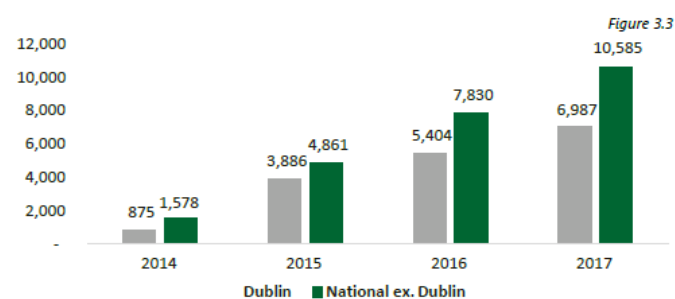
... and the current level of building commencements will do little to alleviate the supply / demand imbalance that persists in the Irish market

Sources: Department of Housing, Planning and Local Government, The Economic and Social Research Institute, Goodbody analysis

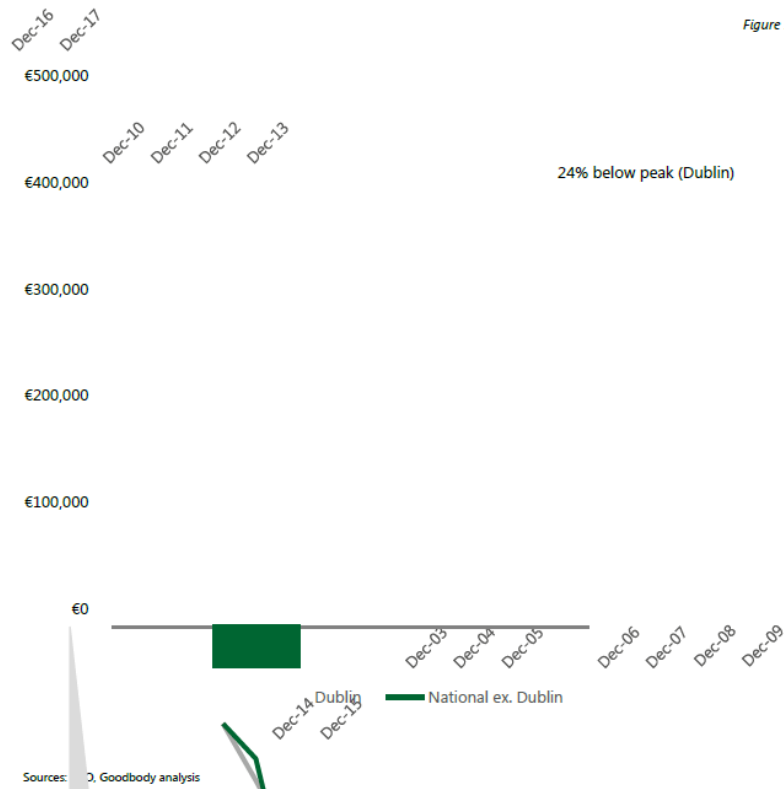
Notes:
1. The accuracy of the data relating to the total number of housing completions has been contested by a number of market commentators who believe the total number of completions is significantly lower – e.g. 9,513 based on Building Energy Rating Certificates in 2017



Building commencements have averaged just 13,000 units per annum over the past 3 years

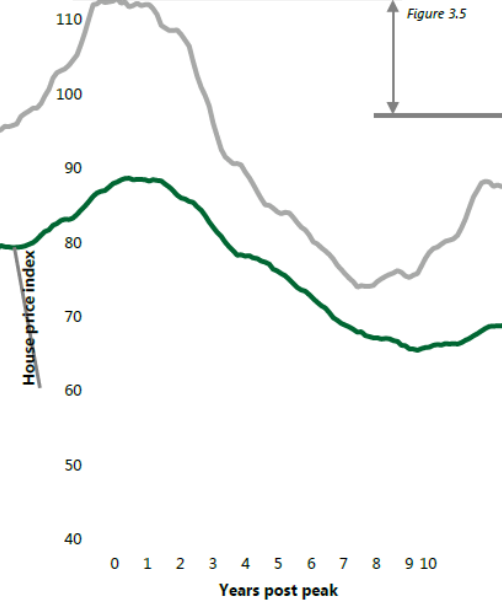


Prices have recovered strongly both in Dublin and nationally



However, this pricing recovery lags international comparatives

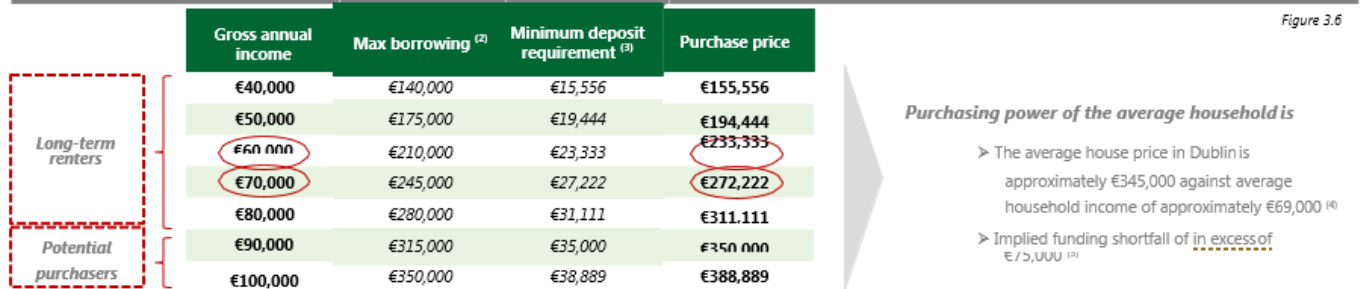
Figure 3.4



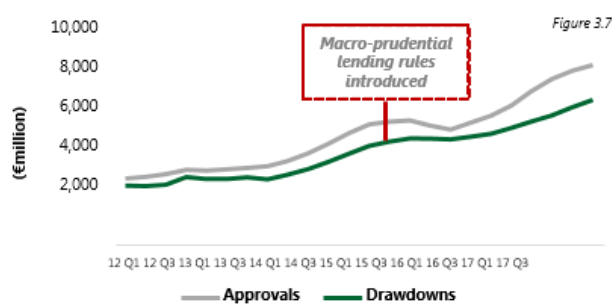
Average Property Cycles for UK, Netherlands,
Switzerland, Belgium, Finland, Sweden, Denmark,
Norway, New Zealand, Spain
Ireland

However, affordability has now become a key issue

The Central Bank of Ireland has imposed strict lending limits of 3.5x gross annual income ⁽¹⁾



While credit is available, the gap between approvals and drawdowns is widening ⁽⁶⁾ ...

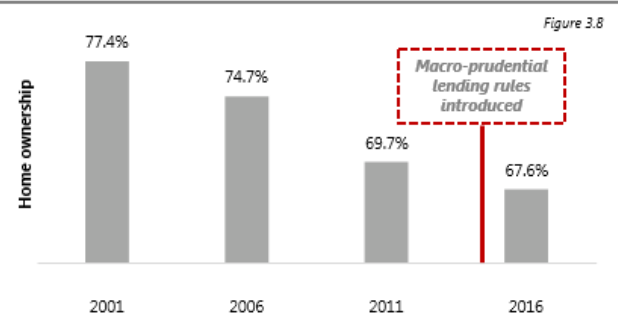


Sources: Central Bank of Ireland, Banking and Payments Federation of Ireland, CSO, Goodbody analysis
Notes:

1. A Help-to-Buy scheme entitles certain first-time buyers ("FTBs") to claim a refund of income tax or deposit interest retention tax paid over the previous four years. The scheme is applicable to FTBs who either buy or self-build a new residential property between 19 July 2016 and 31 December 2019 subject to a maximum property value of €500,000. The borrower may claim up to 5% of the purchase price subject to a cap of €20,000. The buyer must occupy the property for 5 years.

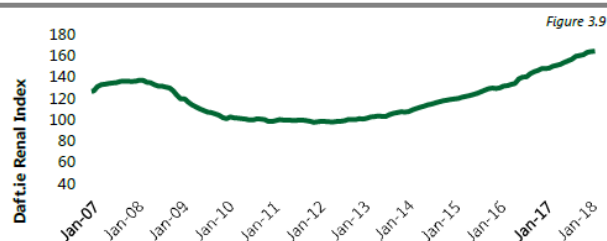
2. Based on 3.5x loan-to-income
3. Excluding the impact of Help-to-Buy. Mover purchasers subject to higher deposit requirements
4. Average national household income of approximately €57,000 plus estimated Dublin premium (c. €12,000)
5. Assuming national gross weekly household income with estimated Dublin premium of €1,330 and 90% LTV
6. Based on rolling 12-month period

... leading to home ownership falling to its lowest level since 1971 (as per the Central Statistics Office)

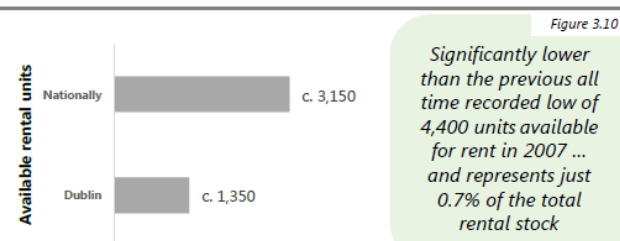


Placing further pressure on the rental market

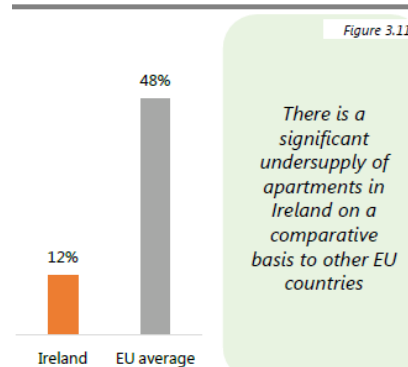
Reduction in home ownership is placing further pressure on the rental market ⁽¹⁾



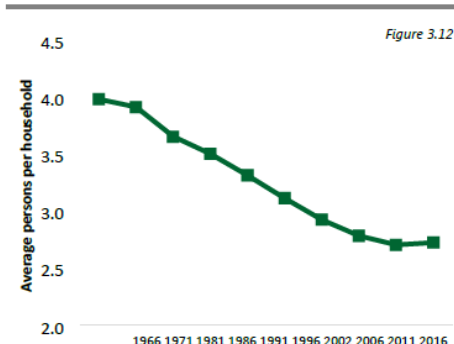
This issue is compounded by the limited availability of rental units ⁽¹⁾ ...



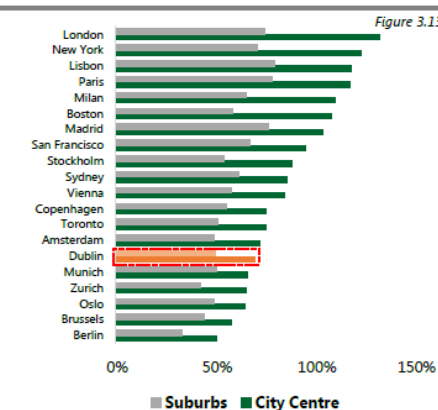
and the mismatch in the composition of housing stock



Increasing demand for apartments as average household size continues to decrease



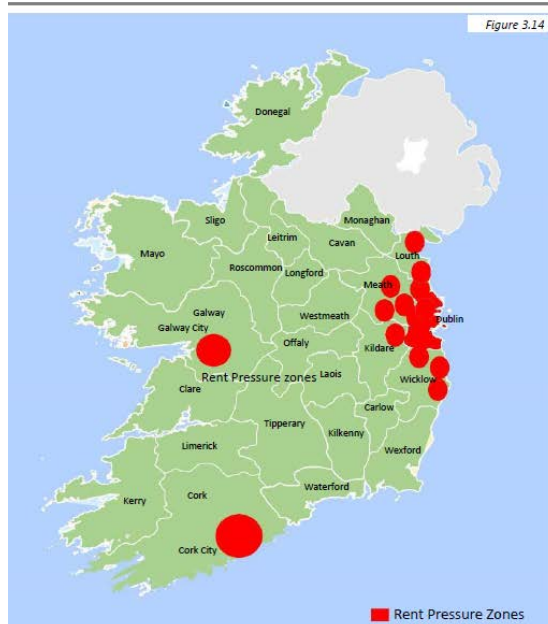
However, rents remain low relative to other international comparatives ⁽²⁾



Sources: CSO, Census, Daft.ie, Department of Economics Trinity College Dublin, Goodbody analysis
Notes:
1. The Daft.ie Rental Price Report Q4
2. Monthly rental costs as a % of average (net) disposable income (for 1,000 sq. ft)

Introduction of Rent Pressure Zones

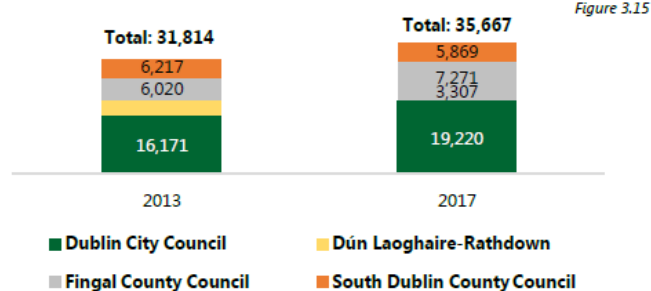
Rent Pressure Zones have been introduced as the need for affordable rental accommodation increases



- Rent Predictability Measures were new provisions enacted under the Planning and Development (Housing) and Residential Tenancies Act 2016 to limit rental increases to 4% p.a. in designated Rent Pressure Zones
- It is intended to moderate the rise in rents in the parts of the country where rents are highest, and rising, and where households have greatest difficulties in finding accommodation they can afford
- The introduction of Rent Predictability Measures will provide greater certainty on rental growth and will further align rental growth with wage inflation

Increasing strain on social housing lists

12.1 % jump in qualified households in need of social housing in Dublin between 2013 & 2017



Median time on the waiting list has increased from 2 years and 8 months to 3 years 9 months



... *Rebuilding Ireland (2016), the Government action plan for housing...*

Government plans to alleviate social housing issues with the aid of the private sector

- There are approximately 86,000 people on the social housing list and the Government action plan for housing (Rebuilding Ireland (2016)) targets the private sector for the delivery of the vast majority of these units
 - The Government will target the delivery of 47,000 units of social housing in the period to 2021
 - Urbeo expects to benefit from Government social housing policy

Sources: Summary of Social Housing Assessments 2017 & Department of Housing, Planning and Local Government



4. Urbeo Residential

Sustainable communities delivered through active estate management



Tenant selection

- Rigorous assessment of prospective tenants (employment, credit review and previous landlord reference checks)
- Tenant mix optimised to achieve sustainable communities
- Engagement / direct interaction with local employers

Day-to-day management

- Outsourced to specialist management agent ("Urbeo Management")
 - Direct oversight and ongoing interaction with Urbeo Management
- Continuous engagement with tenants through a permanent on-site manager
- Building long-term sustainable communities, with lifestyle enhancing amenities
- Led by Felix McKenna who previously established and managed NAMA's extensive social housing portfolio
- Key members of the team have worked together on a variety of projects for over 30 years

Regulatory Environment

- Asset management executed in a regulated environment, under the auspices of the Property Services Regulatory Authority
- Regulations are designed to protect the interests of tenants and investors

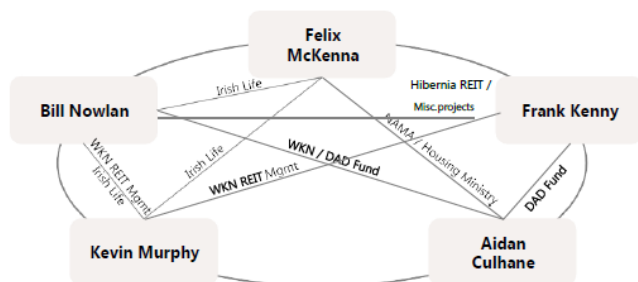
The Urbeo team – a strong combination of local expertise, industry knowledge and strategic relationships







Management Team | Urbeo Residential

 Felix McKenna Chief Executive Officer	<ul style="list-style-type: none"> >30 years of experience in the Irish property market Formerly an executive team member at NAMA While at NAMA Mr McKenna initially led a team managing €7.5bn of distressed assets and subsequently oversaw the management of c. €1bn of mixed use Docklands development, a €250m social housing portfolio and the master planning of a €1.5bn residential scheme in inner city Dublin Prior to his role at NAMA, Mr McKenna was head of property at eircom, Ireland's largest telecoms provider, managing a portfolio of approximately 1,300 properties valued at c. €500m Past President of the Society of Chartered Surveyors in Ireland Chartered Surveyor and Barrister at Law
 Aidan Culhane Director of Housing	<ul style="list-style-type: none"> > 15 years of experience in housing markets and social and affordable housing Formerly Special Advisor to the Irish Minister for Housing and Planning and Consultant to WK Nowlan specialising in social housing Served as a member in local government for 12 years and was also a member of the Dublin Regional Authority and the Southern and Eastern Regional Assembly Holds a Masters Degree in Regional and Urban Planning, is a Chartered Town Planner, and is an associate lecturer at the Institute of Public Administration
CFO, COO & Head of Property	<ul style="list-style-type: none"> Experienced and institutionally credible candidates identified

Team members have longstanding working relationships



Board of Directors | Urbeo Residential

 Kevin Murphy Non-Executive Chairman	<ul style="list-style-type: none"> > 40 years of experience in financial services and the Irish property market Former CEO of Irish Life Non-Executive Director of the Irish Stock Exchange, Canada Life Re, London Life & General Re, Northern Trust Fiduciary Services, L&G Assurance, Canada Life Assurances, Irish Airlines Pensions Past President of the Society of Actuaries of Ireland, Chairman of the Irish Association of Investment Managers, and past President of the Irish Insurance Federation Actuary by profession
 Bill Nowlan Non-Executive Director	<ul style="list-style-type: none"> > 40 years of experience advising on investment in the Irish property sector Founding shareholder and former Board Member of Hibernia REIT plc, a €1bn market cap (and over €100m of residential assets) top 10 performing European REIT Previously Head of Property Investment at Irish Life Assurance plc, then the largest property company in Ireland and the most active developer in the market Formerly a Member of Committee of Management of IPUT, the largest institutional property investment vehicle in Ireland and past Chairman of RICS Ireland and Europe Chartered Surveyor
 Frank Kenny Non-Executive Director	<ul style="list-style-type: none"> > 35 years of experience in the Irish and US property markets Founding shareholder and Board Member of Hibernia REIT plc, a €1bn market cap (and over €100m of residential assets) top 10 performing European REIT Founder and CEO of Willett Companies LLC, a \$1bn+ US property company Has worked with Bill Nowlan for over 30 years on a variety of real estate projects Chartered Surveyor
 Peter Cross Independent Non-Executive Director (Proposed)	<ul style="list-style-type: none"> Managing Director of Trana Corporate Finance Formerly CFO of Eircom, CFO of BT Openreach, Group Director of Corporate Finance of BT Group and Executive Director of Morgan Stanley London Non-Executive Director, and Chair of Audit & Risk Committee, of Ervia (Irish Water and Gas Networks Ireland) and Independent Non-Executive Director of Cubic Telecom Formerly Chair of Audit Committee of the Irish Health Service Executive and Trustee of the BT Pension Scheme Chartered Accountant and a fellow of Chartered Accountants Ireland

Investment vehicle with robust investment, audit, reporting and corporate governance standards

Overview of Urbeo Residential



Strategy

- The purpose of Urbeo is to acquire residential property for the provision of market, social and affordable rental accommodation in major urban centres in Ireland, with a primary focus on the GDA
- At the fund level, it is Urbeo's intent to target an overall tenant mix of approximately 70% market renters and approximately 30% supported tenancies
- Through active and professional management the proposed tenant mix is expected to support the creation of sustainable communities whilst protecting and enhancing the future market value of the underlying properties
- Urbeo will primarily focus on providing housing for a cohort of the population that is unable to acquire homes in urban centres due to the mismatch between average house prices and Central Bank of Ireland home mortgage restrictions
- Urbeo will collaborate with Local Authorities and Approved Housing Bodies to develop mixed tenure communities, on state lands, where opportunities arise

Market, social, and affordable accommodation primarily in the GDA

Optimal mix of market and supported tenancies

Long-term income generating assets

Supportive regulatory backdrop

Experienced management team with proven track record

Urbeo's approach to acquisitions

Acquisition criteria	<ul style="list-style-type: none"> Urbeo will seek to acquire properties with some or all of the following characteristics: <ul style="list-style-type: none"> Predominantly suburban location – with a primary focus on the GDA Strong demand from working households Target net yield in excess of 5% at asset level
Strategy	<p>Dry-assets</p> <ul style="list-style-type: none"> Urbeo will acquire fully completed assets where appropriate (including partially let assets, vacant assets and assets that will be repurposed to residential use) <p>Forward funding</p> <ul style="list-style-type: none"> Urbeo will forward fund experienced residential developers unable to complete viable projects due to the limited availability of debt and equity finance for housing development The Promoters believe that by offering a funding solution to developers Urbeo will be positioned to acquire assets on a competitive cost basis, enabling it to deliver affordably priced units whilst achieving the targeted fund returns Urbeo will look to provide funding in two forms: 'take-out purchase' and 'forward funding' <ul style="list-style-type: none"> Take-out purchase: Urbeo will commit to purchase the fully completed asset at a fixed price upon completion Forward funding: Urbeo will agree a take-out price for completed development and will make stage payments on the achievement of pre-agreed construction milestones
Funding parameters	<ul style="list-style-type: none"> Urbeo intends to use a conservative level of debt on stabilised assets ⁽¹⁾ to further enhance returns for investors – target portfolio LTV of c. 40-50% Urbeo will only apply leverage to fully completed assets (i.e. will not apply leverage to assets in development)

Dry assets - New

- It is proposed that New Bancroft, a mid-rise apartment complex that was acquired by DADF in July 2017, will be reversed into Urbeo following completion of Urbeo's initial fundraising, to act as a seed asset for the new venture
- New Bancroft is a newly built, 131-unit apartment complex located in Tallaght, West Dublin
- Equity funding was provided by ISIF, the Promoters and a number of private investors
- Tenant mix comprised of 70% market renters and 30% supported tenancies
- New Bancroft was successfully leased within 3 months of acquisition and is currently achieving rents in excess of the original target
- The acquisition of New Bancroft by DADF demonstrates the Promoters' ability to acquire assets off-market that fall within Urbeo's intended return objectives



The New Bancroft property has out-performed initial budgets

	Budget	Actual
Time to fully lease	6 months	3 months
Average monthly rent ⁽¹⁾	€1,527	€1,557
Year 1 NOI	€1,863,117	€1,936,840
Net yield ⁽²⁾	6.6%	7.1%
Levered IRR (5 yr)	8 – 10% target IRR	

131 apartments

Fully let in 3 months and ahead of budget

Achieved targeted tenant mix

- c. 70% market
- c. 20% HAP
- c. 10% social housing

Note:

- Weighted average rent by number of apartments
- Net levered yield on equity

The forward funding concept

Take-out purchase

- Through the payment of a deposit, Urbeo would commit to purchase the fully completed asset at a fixed price upon completion
- This certainty of acquisition and price should enable the developer to obtain external third-party financing, that might otherwise be unavailable, to fund the development of the property

Forward funding

- Urbeo would agree a take-out price for a completed development and would make stage payments to the developer to fund construction
- In return for the forward funding element Urbeo would receive a coupon / fee on the pre-funded portion – yield similar to long-term rental yields

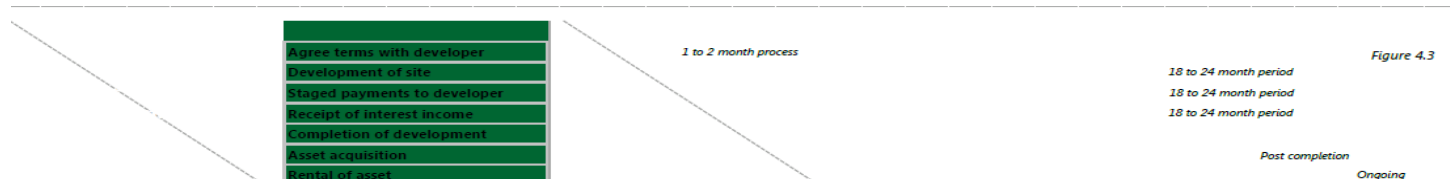


Figure 4.3

Risk management

- Urbeo will only partner with best in class homebuilders that verifiable track-records
- Prudent approach to lending limits
- Payment for works completed on architects certification
- Independent project monitoring and control

Access to pipeline properties

Coupon / fee on development financing mitigates cash-drag

Risk averse approach to lending

Partner with long-standing, credible homebuilders

The forward funding concept

Availability of finance has declined significantly ...

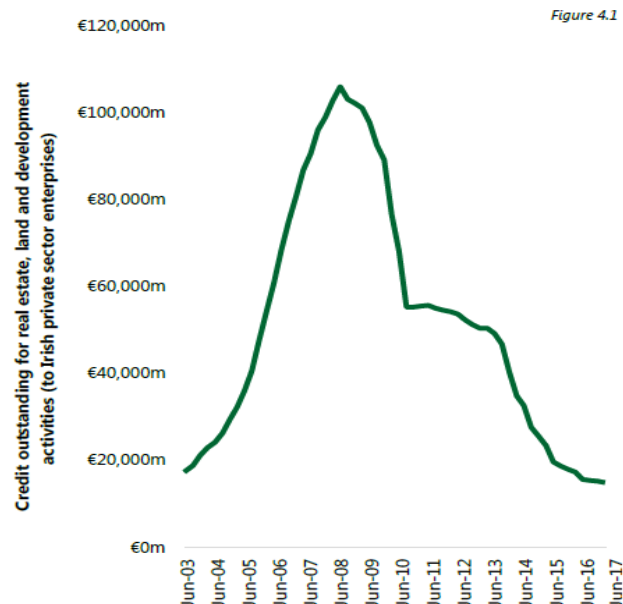


Figure 4.1

... with fewer lenders in the market charging higher rates at lower leverage ratios

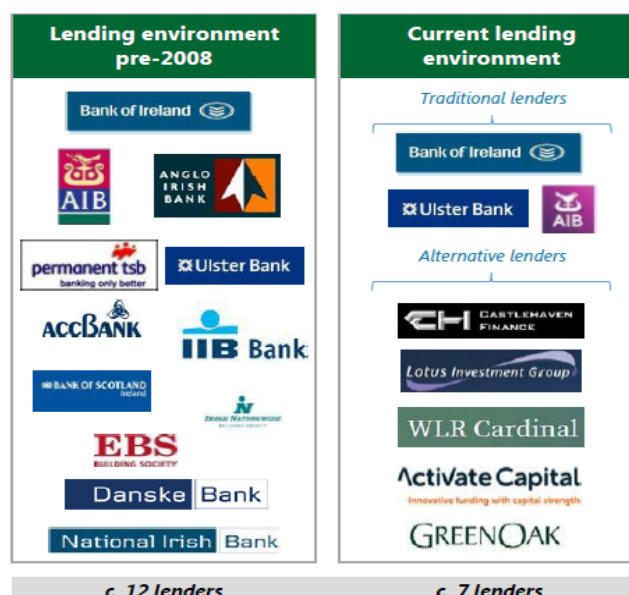


Figure 4.2

Pipeline

Where the assets will come from

Management relationships

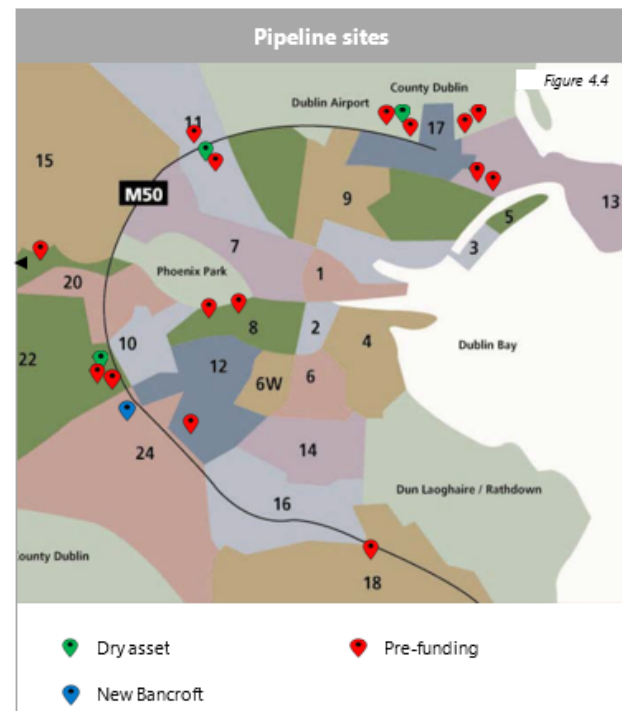
Private equity funds

New developments

NAMA

- The management team have identified a number of potential acquisition opportunities - both dry assets and forward funding assets
- The management team are in early stage discussions with a number of Ireland's leading homebuilders regarding potential off-market transactions
- Urbeo will be flexible in its approach to acquisitions and believes the forward funding model will give Urbeo additional access to pipeline assets
- The management team are currently reviewing 18 potential projects in the GDA that are illustrative of the market opportunity
- There are also a number of significant Public Private Partnership projects / portfolio acquisition opportunities emerging in the market capable of absorbing €500/600m capital

	Project	Location	Approximate Units	Approximate Price Range - €m	Off/On Market	Time to Letting
Dry Assets	1	Dublin 11	123	-	On	Immediate
	2	Dublin 22	63	-	On	Immediate
	3	Co Dublin	48	-	Off	Immediate
	Dry asset total		234	€70 - 75m		
Forward Fund	4	Dublin 8	29	-	Off	15 Months
	5	Dublin 8	153	-	Off	24 Months
	6	Dublin 11	130	-	Off	18 Months
	7	Dublin 11	170	-	Off	24 Months
	8	Dublin 12	150	-	Off	24 Months
	9	Dublin 13	150	-	Off	30 Months
	10	Dublin 13	209	-	Off	27 Months
	11	Dublin 18	220	-	Off	24 Months
	12	Dublin 22	200	-	Off	30 Months
	13	Dublin 22	225	-	Off	27 Months
	14	Co Dublin	45	-	Off	18 Months
	15	Co Dublin	86	-	Off	18 Months
	16	Co Dublin	150	-	Off	24 Months
	17	Co Dublin	75	-	Off	18 Months
	18	Co Kildare	90	-	Off	4 Months
	Forward fund total		2,082	€620m - €640m		





5. Structural considerations

Summary of key terms



Target size

- Approximately €300 - €400 million

Use of proceeds

- Acquisition of residential property for the provision of market, social and affordable rental accommodation with a primary focus on the Greater Dublin Area
- Acquisition of:
 - Completed assets
 - Partially completed assets
 - Assets to be developed by third parties
- Provision of forward funding for assets in development where appropriate

Investors

- The intention is that the current shareholders of DADF will roll their equity interest in New Bancroft into Urbeo through the transfer of the asset at its open market value at the time of transfer (based on an independent red book valuation)
- ISIF is committed to being a cornerstone investor in Urbeo

Professional advisers

- **Financial Advisor:** Goodbody Stockbrokers UC
- **Legal Advisor:** McCann FitzGerald
- **Tax Advisor:** KPMG

Angel Investors' investment and incentive scheme

Angel Investors' investment

- It is contemplated that, in addition to ISIF's separate cornerstone investment, the investors in DADF (the "Angel Investors") will invest €20 million in Urbeo, representing c. 5-6% of the total equity (assuming an additional €300-400 million of proceeds raised through the fundraising)
 - this €20 million equity investment will be through the transfer of the equity value in the New Bancroft property into Urbeo ⁽¹⁾
- The investment will be made on identical terms to the institutions participating in the fundraising

Incentive scheme

- No incentive is awarded unless a 7% IRR is achieved ⁽²⁾
- On achieving the performance condition, the beneficiaries of the incentive scheme (the "Beneficiaries") ⁽³⁾ can earn up to an additional 5% equity interest in the fund
 - The performance condition will be tested at the expiration of the Advisory Agreement, the expiration of the extended Advisory Agreement (if applicable) or, if earlier, a trade sale or liquidity event
 - The Beneficiaries' incentive is only awarded above a threshold IRR of 7%
 - The Beneficiaries will receive 35% of the excess returns over and above the threshold IRR up to the point that the Beneficiaries will have earned a further 5% of the issued share capital of Urbeo
 - Thereafter all distributions are on a pari passu basis based on restated shareholdings
- The full incentive scheme is only awarded when new investor IRR of 9.7% has been achieved (post award of Beneficiaries' incentive) ⁽⁴⁾

Notes:

1. The transfer on New Bancroft will be subject to approval by the Angel Investors
2. Net levered IRR on all capital raised
3. The incentive scheme will be split as follows:
 1. 65% of the incentive scheme will be awarded to the Promoters and the management team; and
 2. 35% of the incentive scheme will be awarded to the Angel Investors (excluding the Promoters)
4. Based on assumed fundraise of €300m and New Bancroft transferring at an equity value of €20m

Indicative key Advisory Agreement terms

- Urbeo will be externally advised by Urbeo Management
- Below are indicative key terms of the Advisory Agreement

Advisory fees	<ul style="list-style-type: none"> ▪ Advisory fees of: <ul style="list-style-type: none"> i. 1.25% on gross assets under management up to €200m; and ii. 1% on gross assets under management thereafter ▪ All advisory fees are paid quarterly in arrears based on previous year's most recent gross asset value ⁽¹⁾
Acquisition & construction advisory fees	<ul style="list-style-type: none"> ▪ Asset acquisition fee of 1% of gross asset value ▪ Construction project management fee at market rates
Advisory contract	<ul style="list-style-type: none"> ▪ 5 years, following which the Advisory Agreement automatically extends on a rolling 3 year basis unless terminated ▪ 12 month notice period applicable to Urbeo and Urbeo Management (earliest termination is at end of initial 5 year period)
Conflicts	<ul style="list-style-type: none"> ▪ Adviser employees will be prohibited from involvement in a similar vehicle without Board approval ▪ Employees of Urbeo Management will be prohibited from advising any investor in competition with Urbeo ▪ All conflicts of interest to be disclosed to Urbeo



6. Conclusion

Conclusion



- 1 The shortage of affordable rental accommodation is expected, for the foreseeable future, to continue to act as one of Ireland's most pressing issues at a political, social and economic level
- 2 Urbeo's strategy is to be the largest provider of affordable housing in the Irish market
- 3 Attractive near term asset pipeline
- 4 Low risk asset class delivering long-term 'sticky income'
- 5 Highly experienced management team with wide sector experience and a proven track record in the housing sector
- 6 Investment vehicle with robust investment, audit, reporting and corporate governance standards

APPENDIX 2.

‘The Potential of Mixed Tenure Urban Development in Ireland’

Dr. Philip Lawton

A significant amount of recent urban research has focused upon the scale of the neighbourhood and the forms of social interaction that take place within it. Often summarized as ‘neighbourhood effects’, much of this literature has sought to examine the connections between the neighbourhood in which people live and their life chances (Joseph et al., 2007; Blokland and Savage, 2008; Arthurson, 2010). While literature within the social sciences and urban planning has been somewhat critical of social mix, and particularly on its relative levels of success in mitigating the impacts of poverty, there remain important elements in the message being conveyed and, more particularly, in the potential role of social mix within future housing provision in Ireland. A key factor is therefore not so much that social mix should be rejected in favour of a form of segregation, but that the needs of the less well off, the poor and more vulnerable within society should be deemed of high importance within the provision of housing. This has implications for social mix policies and the manner in which they are implemented. Moreover, it needs to be recognized that within social housing provision there are degrees of necessity that shift significantly. This is dependent upon a number of variables that can at times be overlapping. For example, the needs of a socially deprived estate (see Redmond and Hearne, 2013) will vary significantly from those of newly provided social housing within a newly developed suburban location (NESC, Forthcoming, 2015). Moreover, within the provision of social housing, there are varying degrees of need, that range between factors such as health, age, disabilities, and social groupings. Planning a newly developed socially mixed development therefore offers potential for the promotion of a socially inclusive model of housing that can take into account these different needs, that may vary depending upon the particularities of the location and other variables. The manner in which such factors are engaged with is thus dependent upon a number of factors, including design, development and day-to-day management. Each of these factors will be returned to at a later point in this paper.

From a broader perspective, a significant element of current urban experience on a global scale is marked by segregation. Much of this is driven by, and reinforced through disparities in wealth. Increasingly, there is a tendency for the wealthier in society to isolate themselves from other members of society. This, as has been extensively documented within urban studies literature has lead to a tendency to reinforce particular fears about engagement with people of different social backgrounds. As is summarized by Atkinson (2008, p.42): “Gated communities, affluent enclaves, common interest communities and many new suburbs reveal not only concentration and spatial separation but also a broader set of social fears, desires for status, common value, and identities.” The dangers of segregation are thus highlighted in the increase of the wealthier in society isolating themselves and disaffiliating themselves from the rest of society (*Ibid*). From a policy perspective, it becomes important to promote and support cities and towns that are socially inclusive and balanced. The promotion of socially mixed neighbourhoods is one factor in the promotion of such. Here, there is potential for both government intervention and the intervention of the private sector over prolonged periods of time.

The implementation of socially mixed urban developments is highly complex and involving a myriad of different factors. For one, much as it is problematic that the wealthy have often chosen to withdraw from the public realm of the city (Atkinson, 2008), the promotion of a return to the city is itself not without its social challenges. Indeed, a significant amount of work has demonstrated the extent to which ‘social mix’ can result in the gradual if not rapid displacement of lower wage and poor people in the city (Bridge et al, 2014). Thus, the promotion of social mix is context specific. However, when the opportunity is presented to provide for housing that is of mixed tenure, and that does not involved the displacement of particular groups, it holds out the potential to ensure a less segregated urban reality. The aim of this paper is to briefly examine the potential of social mix to engender a more inclusive urban environment.

Social Mix: Potentials and Critiques

A central argument within ‘social mix’ is that mono-tenure estates have negative influences upon people’s educational attainment and thus their life chances. Moreover, it is also argued that within such settings, expectations can be reduced, thus impacting upon people’s attainment

of employment and other factors, such as education (Wilson, 1987). Thus, when brought together, the social isolation of poverty serves to be reproduced over time. In emphasizing the role of spatial segregation, Redmond and Russell (2008, p.170) argue: “Clearly the issue of spatial isolation or segregation is important as it is argued that, in essence, it is worse to be in poverty in an area of concentrated poverty than being in poverty elsewhere”. Through interventions that serve to limit the isolation of poverty, social mix is perceived to eliminate at least one of its more negative elements and halt a spiral of decline. However, a significant amount of research has questioned the extent to which the mixing of different social groups actually generates positive outcomes for poorer groups – the very groups that such policies are aimed at. If anything, the recent research within urban studies on social mix cautions about the high expectations of neighbourhood mixing. It either implicitly or explicitly points to the need to consider a range of other factors, including family structures, relative wealth, and employment opportunities in terms of life opportunity (van Kempen and Wissink, 2014). Questions arise as to the extent to which tenure mix actually improves employment chances of the poor. Directly connected to this, arguments have arisen as to the extent to which mixing actually takes place within socially mixed neighbourhoods. For example, Butler and Robson (2001) argue that those living in socially mixed neighbourhoods live largely separate lives with little interaction taking place between different groups. This has been repeatedly argued within social mix literature, with questions arising over the benefits accruing to particular populations. For example, drawing on the example of employment trajectories, Pinkster (2014) has argued that a greater level of understanding is needed in understanding the potential role of the neighbourhood in influencing employment opportunities. Indeed, disaggregating wider opportunities from the neighbourhood scale becomes a significant challenge. The expectations of what can be achieved through social mix should therefore be metered in the context of wider societal factors beyond the scale of the urban block or neighbourhood.

Never-the-less, in as much as social mix can mitigate against some of the worst elements of segregation, it holds potential for societal change. Indeed, while there may well emerge wider societal benefit from social mixing, one of the more positive elements to be expected from an environment that promotes social mix is the manner in which engenders interactions between different social groups on an everyday level. This may entail short encounters between different people from different backgrounds, or the establishment of more long-term forms of interaction. For example, in discussing the importance of feelings of belonging in society, Blokland and Nast (2014, p.1145) highlight “...the importance of fluid, brief, incidental

encounters.” As they continue, a sense of belonging in a neighbourhood revolves around the creation of a form of ‘comfort zone’. Here, they highlight the importance of being able to interact with those whom we are familiar with and strangers within urban space as engendering a feeling of belonging. Such a treatise brings us back to need to resist urges towards segregation within the contemporary city, with the positive roles of integration at the level of the neighbourhood being highlighted through the promotion of social mix. Social mixing therefore can be seen as allowing the possibility of promoting a form of ‘urbanity’ where different groups and individuals are able to live with people different from themselves (Fainstein, 2005). While it is important to have an understanding of some of the pitfalls of promoting socially mixed housing, it also provides the potential of allowing for the evolution of a more socially inclusive urban environment. Here, the potential for interaction between different social groups within the neighbourhood and the creation of trust thus becomes of key importance.

What can be learned from the above in terms of the implementation of social mix policies? First, it is important to maintain an awareness of the limitations of social mix policies when viewed in the context of the wider social factors. For the purposes of this paper, however, it is perhaps of greater significance to gain an understanding of the potentials of social mix. This includes gaining an insight in to the particular needs of a locality, both in terms of the city-regional scale and the neighbourhood scale. It is to this broad area that the paper now turns.

Potentials of Social Mix for Social Inclusion and Societal Trust

Given the experience of recent decades, Ireland currently stands on the cusp of a significant change in approach to the provision of housing. Of particular note for the purposes of this paper is the extent to which the promotion of a greater focus upon social housing begins a process of normalizing an alternative relationship to housing that is not dominated by owner occupancy. This, as is alluded to by Livingstone et al., (2013) can engender a more positive relationship to alternative forms of housing, including social housing, than exist at present. In drawing upon the examples of the Netherlands, Sweden and Germany, they posit that the correlation between social housing as a particular form of tenure and a specific social group – the poor – is less firmly embedded than in countries such as Britain. As such, a greater focus on the provision of social housing as provided within the context of market-led housing can, in the long-term, engender a more positive overall attitude towards such housing provision, with potential

impacts in terms of lessening stigmatization and promoting the provision of social housing as a more integral element of wider housing provision. In as much as recent government policy, such as the Social Housing Strategy 2020 has identified a need for social housing to be provided for a significant cohort of population, we are at a point where such provision will no longer be merely targeted at a residualized population group (see Norris, 2014), but will be more widely available to a larger cohort of the population.

The potential to promote tenure mix also allows the possibility of addressing factors often left to market forces, such as displacement of poorer populations. The inclusion of different forms of social housing within market-led housing development goes some way to mitigating against negative externalities, such as, for example the potential for different groups to be excluded or displaced to parts of the city based on affordability. The paper now turns to the more micro-level elements of approaching social mix, including design, layout and day to day management practices.

Approaching Social Mix: Design, Layout and Management

Much of the discussion around the implementation of social mix has surrounded the relative level of mix between different tenures. Within the literature, tenure is often used as a synonym for different social groups, with social housing becoming representative of the poorer in society. As such, it is premised that, at least to a certain extent, the mixing of different tenures will achieve a certain level of mix between different social groups. It is also perceived that design and layout play a key role in the success or otherwise of such locations. For example, much work emanating from best practice guidelines in the U.K. has advocated the promotion of ‘pepper-potting’ as an approach that integrates different social groups through the mixing of tenures throughout an apartment development or within a group of houses at the neighbourhood level (Jupp, 1999; Lawton, 2013). It is deemed that such an approach achieves a certain level of integration and interaction and avoids stigmatization (Bailey et al., 2006; McKee et al., 2013). Indeed, the scale of mixing is an important element within the layout and design of socially mixed developments. Work by Lawton (2013), which focused upon Amsterdam, has demonstrated a shift away from pepper-potting and an emerging trend of more micro-scale segregation at the level of the urban block. This raises questions about the fundamental nature of social mix policies; i.e., the desire amongst policy makers for different groups to at least integrate at the scale of the street or apartment block.

The point here is not to say that there are hard or fast rules about the scale at which mixing should take place. However, it is of key importance that undue segregation does not become manifest through the implementation of design. Discussions of the ‘poor door’ approach in the UK in recent years have also highlighted this tendency. Thus, much best practice would advocate the promotion of social mix that is ‘tenure blind’ (McKee et al., 2013). Here, the emphasis is placed on ensuring that through both the internal and external finishing, the appearance of housing is the same for both market oriented and social housing. Some examples from the Netherlands, where a mixture of different tenures is provided for with the same high quality design is illustrative of this tendency. This is indicated in the inserted text box, which draws upon the example of the Eastern Docks in Amsterdam. The rationale for such an approach is to ensure that particular parts of a housing development do not become stigmatized.

Eastern Docks, Amsterdam

Eastern Docks, Amsterdam, which was developed in the context of a post-industrial port between the mid 1990s and 2000's, is used here as an illustration of distribution of social housing across a neighbourhood. The coloured sections of map indicate areas under management of housing associations. Images give indication of quality of build and 'tenure blind' approach, whereby social housing is of same quality and build as owner occupied and market rental housing. The Eastern Docks also provides mix between own-door terraced housing and higher density apartments (All Images by Author, 2012; map source: Atlas Sociale Woningbouw: Amsterdam Social Housing Atlas, 2007)



In an Irish context, over the last number of years since the economic downturn, social housing provision has been predominantly has predominantly taken the form of retro-fitting already existing developments. Thus, the approach taken within newly built stock allows for a much greater level of pre-build thought to go into a socially mixed development. Here, the interaction between social needs, design and management become of key importance.

As is discussed within the work of McKee et al (2013), it is important to provide a range of housing types within socially mixed neighbourhoods. This includes own-door duplexes, houses and apartments. The key factor within such approaches it that housing within a location can serve the needs of individuals and families over a prolonged period of time. Already existing typologies from both Ireland, such as the Dublin Docklands, and abroad (e.g., Amsterdam and Vienna) can serve to give pointers to such. As is illustrated in the example of the Eastern Docks, an urban block can provide for both own-door housing and apartments within the same development or location. Furthermore, with due regard to the respective tenants, it is possible that such approaches allow for swapping between different tenants over time. This may entail bringing together the needs of someone who is looking to downscale and the needs of someone with an expanding family. The advantages of such an approach are that it allows for different groups to stay within their neighbourhood but to adjust their housing as their personal needs change.

The promotion of high quality day-to-day management within socially mixed developments is of key significance in achieving long-term viability. Beginning in the late 1990s, and as predicted by researchers such as Priemus et al. (1999) there has been an increased awareness of the role of housing associations and related bodies in the upkeep of social housing. This has included an increasing professionalization of the sector, and a greater alignment with market actors. In an Irish context, the increased role of housing associations and their attention towards upkeep has been highlighted by recent work by NESC (Forthcoming, 2015) and work by Norris (2014). In particular, the NESC discuss the nuances around both pepper-potting and clustering of social housing within a particular development. As they highlight, challenges of clustering pertain predominantly to issues over upkeep. While historically social housing was often deemed to be of poor condition due to insufficient maintenance, the emergence of housing associations has contributed significantly to a shift in day-to-day management and duty of care. One of the key elements to emerge from this research is the importance of the context of the particular location. For example, within locations where there is an existing community

structure, the development should be cognizant of the needs of those already living in the area. Thus, as was highlighted in the case of the docklands, providing clustered housing was seen as of huge benefit to the community in terms of maintaining community bonds. For management, the clustering of housing allows for a greater ease of care in terms of everyday upkeep, including cleaning and general repairs. In other contexts, the pepper-potting approach can be implemented. This, however, entails more challenges in terms of up-keep and management. For example, there are often particular needs within social housing in terms of upkeep. This, as will be alluded to in the next section, can be somewhat mitigated against through integrated approaches to management. It should also be noted that it is possible to promote both clustering and pepper-potting within the same development. This approach would recognize that there are different needs within the overall development of social housing. For example, social housing can provide for residents with special needs that can be thought through at the design phase and supported through day to day management. This is a common feature of the experience of housing associations. It is recognizing these needs that becomes paramount when making decisions around questions of design and day to day management.

Key Elements in Approach ‘On the Ground’

The development of socially mixed housing can, when carried out with a number of factors in mind can provide a successful and socially inclusive approach to housing. By way of conclusion, the following are pointers that should be born in mind when pursuing a socially mixed development. I have aimed to give some pointers, but it is important that all of the different elements are brought together so as to ensure a fully integrated model.

- 1: The inclusion of non-market housing within a housing development must ensure that it resists any undue segregation. This begins with the process of design. Here, it becomes essential that architects and designers engage with the needs of the tenants. While it may be difficult to engage directly with people who do not yet live within the neighbourhood, experiences can be drawn upon from other similar developments. Clarion Quay and Hanover Quay in Dublin’s Docklands could perhaps point to some useful insights in this regard. As such, a developer should take these factors into mind when selecting architects. If a design team is already selected, the developer should promote the importance of such at the pre-design phase of the project.

- 2: Putting in place a housing association who will be responsible for the day to day running of the social housing part of a development is of key importance in terms of the implementation of socially mixed housing. Recent experiences indicate that the inclusion of such bodies prior to the design phase would be of significant merit in terms of deciding upon a good quality of finish and practical elements of overall design and development. As with point 1 above, it would be of significant benefit if the housing association were able to communicate with the design team at the design phase of the project.
- 3: Once finished, the needs of all residents must be central to decision-making. Thus, it is necessary to establish a board where all tenants have a say in the day-to-day running of a development. The promotion of integration between different tenants, the developer, management and the housing association is of significant importance in the management of housing. This is of particular importance within apartment developments. Possibilities of integrating the management of different tenures of housing should also be looked at. The housing association would be able to give professional advice in this regard. It is posited that if successful, this would be able to garner a significant amount of interaction between different groups within a development. This is currently not provided for through legislation in Ireland. It would, however, be feasible to promote a new and more integrated approach to management, which could be drawn upon as a model for other future developments.

Conclusion

This short paper has attempted to outline some of the potentials and pitfalls in the promotion of socially mixed urban developments. While the paper outlined some of the more critical approaches to social mix policies, it also pointed towards some potentials in the development of and day to day operations of a socially mixed neighbourhood or development. The fostering of a successful socially mixed development is premised on the promotion of interaction between different actors at various phases of the development. In this regard, it is essential that interaction occurs between different actors at the pre-development, development and post-development phase. Of particular importance here is the day to day management element. As is outlined in this paper, there is a significant increase in the level of attention towards

management of housing developments. While this paper has focused particularly on housing associations, there is also increased potential for interactions between these bodies and privately oriented services management teams. However, given their understanding of the diversity of needs of social housing tenants, housing associations can play a central role in the long-term success of a socially mixed housing development. Bringing the different elements together presents significant challenges for a successful housing development. However, drawing upon experiences from other places, and experiences garnered from the Irish context, it is feasible to develop an integrated model of housing with a long-term viability.

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